ONCE OFF LIMITS, INSURANCE IS NOW PIVOTAL FOR RIAs.

Insurance has been off limits to fiduciary advisors since forever. The culprit is commissions. The academic benefits of annuities and life insurance to a client's financial plan are compelling. But in order to leverage them, RIAs have had to send their clients down the road to a salesperson. A huge conundrum for a fiduciary that can result in clients owning expensive products and RIAs losing control of their client's experience and possibly significant AUM. Not a great choice for the client or the advisor.

The advent of Commission-Free insurance empowers advisors to bring clients' insurance under their fiduciary umbrella. Rather than having to sell against products like annuities, advisors can fulfill client needs and grow their practices.

With all the benefits Commission-Free insurance brings to an advisor's clients and practice, it doesn't make sense for RIAs *not* to expand into insurance.

201 reasons why having DPL as your strategic partner could be the best business decision you ever make.

The momentum DPL is building is no happy accident. DPL spent 3 years working with carriers to ensure they serve the needs of the RIA market and we continue to work with our carrier partners on products, systems and processes.

In the past year, more than 200 RIA firms have become members of DPL. Of these, more than 20% manage $1 billion+ AUM. This enthusiastic response from the RIA community sends a clear signal — advisors need smart, conflict-free insurance solutions for their clients.

DPL's website at dplfp.com is a powerful resource for RIAs to learn about repriced, Commission-Free insurance and how it is used in a holistic financial plan.

As industry trends continue to put pressure on the RIA business model to expand services, RIAs are embracing Commission-Free insurance as a way to differentiate their practices, provide comprehensive planning and deliver a more complete client experience.

Bringing insurance into your practice is easier than you might think.

DPL works as your firm's strategic partner. Our members appreciate DPL's approach: a trusted, one-stop-shop for annuities and life insurance; education and support from experienced, licensed insurance professionals; value-focused solutions from leading carriers, including Allianz, AXA, Great American Insurance Group, Great-West Financial, Integrity Life, Jackson, Security Benefit and TIAA.

Leveraging the power of insurance is easier once you know where to look.

DPL's new website is built on a bedrock source — feedback from our members who told us exactly what they wanted. An educational tool for them to learn and share insights about Commission-Free insurance solutions through a variety of sources: case studies, webinars, key research, best practices, product information, calculators and more.

Some strategies look good on paper. DPL's work great in practice.

DPL is an unbiased and agnostic resource. We work on behalf of the RIA industry to bring Commission-Free, best-in-class insurance products from leading carriers. This ensures RIAs can deliver the best-fit, best value solutions for their clients — and it sets DPL apart as a true strategic partner. [dpl]

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Join The Revelation.

March 2019

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Financial Planning

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I AM NOT A ROBO

What Silicon Valley advisors are getting right about the intersection of technology and the future of financial advice

Dan Murray Mirador Capital Partners

SourceMedia™

Financial Planning

Vol. 49/No.3

An Article From the Brighthouse Financial Insights Panel

A group of leading independent experts to help you and your clients stay ahead of the curve.

The Four Types of Clients

How to talk to the four client types about financial capability.

Your clients may fall into four main groups when it comes to their financial expertise and how they handle their money. Financial capability expert J. Michael Collins and behavioral economist Dan Goldstein explain how you can best work with each group to improve their understanding.

In both Michael and Dan's experience, many advisors see that their clients aren't just hesitant to make financial decisions – advisors find it challenging to even engage them. Here's their advice on how you can best speak to your clients, tailored to each of the four types:

- Avoidant clients
- Overconfident clients
- Underconfident clients
- Regretful clients

Avoidant Clients

Characteristics of avoidant clients
Money-avoidant clients make up about one-third of the population and generally don't enjoy managing their money. They don't like to engage with finances and see you as a babysitter for their money. According to Michael, "These clients think, 'This is a task I don't want to do, and I'm just going to outsource it to somebody else.'"

How to work with avoidant clients
While these clients may not be as engaged with money as you would like, Dan points out that this is a good opportunity for you to demonstrate that what you do is valuable and teach them that engagement can lead to financial success in the long run. This helps build trust in the relationship and encourages clients to take steps toward achieving their financial goals.

Michael also suggests that you should encourage your clients to take small steps, like organizing their financial statements, and eventually build up to bigger tasks, such as deciding how much money to take out of their savings in retirement. This makes taking action seem less daunting and more achievable.

Overconfident Clients

Characteristics of overconfident clients
Based on Michael's research, about one-fifth of the population is overconfident about their financial capability. These clients are more likely to be young males who are more self-assured about their financial knowledge than results prove. Objectively, they don't do very well on financial quizzes.

Overconfident clients are enthusiastic about taking action but don't know enough to be able to make good financial decisions. And once they do, they frequently change their minds about investment strategies or products they committed to.

How to work with overconfident clients
This group can be easy to spot but hard to work with. Dan suggests that you provide your clients with a complete set of information that helps them with their decision-making and tailor your communication to their attention spans.

For this particular client type, Michael recommends that you direct them away from technical details and, instead, focus on bigger, broader goals and action steps, such as diversifying their portfolio or thinking about when to retire. This will quell their need to take action for the sake of taking action, which will allow you to guide them toward decisions that will have a positive impact on their financial well-being.

Underconfident Clients

Characteristics of underconfident clients
Underconfident clients tend to do well on financial quizzes and have a good sense of how financial products work, but they are unsure of how to act.

These clients – often middle-aged women – know that they should be more proactive about managing their money but lack the confidence to take steps to achieve their financial goals.

How to work with underconfident clients
Consider helping this group focus on what they want beyond money. What are the end goals that good financial decisions can help them achieve? For underconfident clients, articulating these thoughts can make them feel more self-assured. If they know that an action can benefit them in the long term, they'll be more inclined to overcome their lack of confidence and take it.

"It's about slowing down and really listening to what it is that people want out of their financial relationships," Michael says.

Similarly, Dan explains that providing underconfident clients with information can be a helpful way to motivate them. Walking through various future retirement scenarios or giving simple statistics on how people in their age group handle money can give these clients concrete reasons for why they should engage more with their finances. Once they can visualize their future, it becomes easier to take steps toward it.

Regretful Clients

Characteristics of regretful clients
This category of client has often had negative experiences with money. While they may have some knowledge about how finances work, they're embarrassed about their financial history, such as carrying credit card debt or making bad investment decisions. They're reluctant to take action because of these negative associations. Regretful clients tend to be hard to make appointments with.

How to work with regretful clients
For this client type, it may be helpful to come up with a plan that has specific deadlines.

"Suggest to them, 'We're going to do a particular task or action the next time we meet, or next week, or by the end of the quarter,'" says Michael. It's important to come up with a structured way to take action steps. Similar to avoidant clients, regretful clients may need to start small before they graduate to bigger tasks.

Understanding the four kinds of clients you're most likely to interact with will make it easier for you to devise a coaching plan tailored to their strengths and weaknesses.

Learn more on how to identify and work with different financial client types by visiting brighthousefinancialpro.com/insightspanel

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"Two minutes is a superslow response" time in the world of San Francisco millennials, says Dan Murray of Mirador Capital Partners.

COVER PHOTO AND PHOTO RIGHT BY PATRICK STRATTNER

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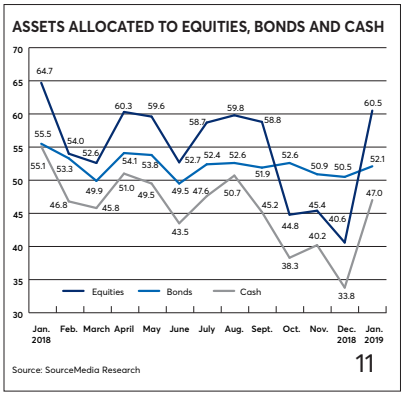

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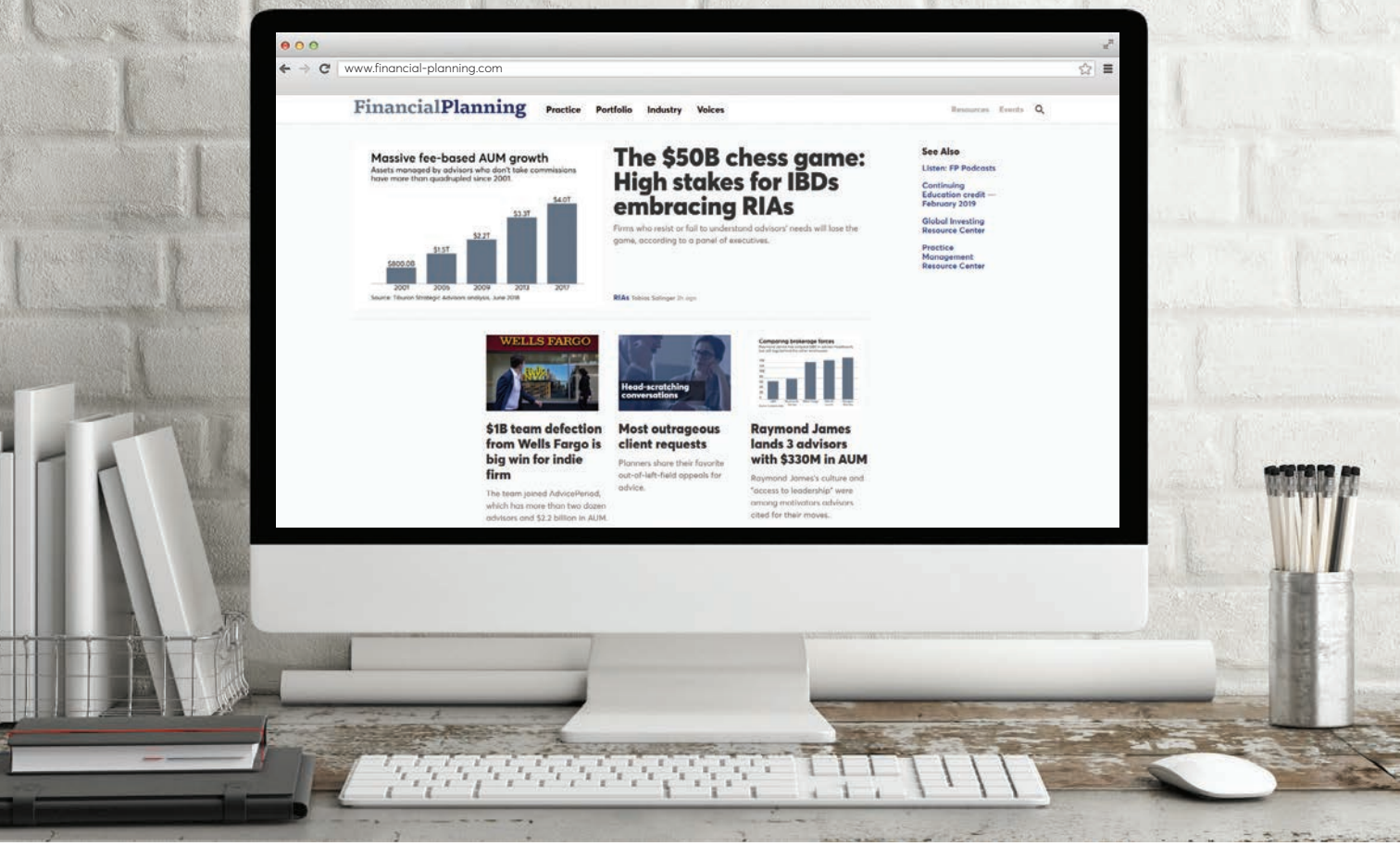
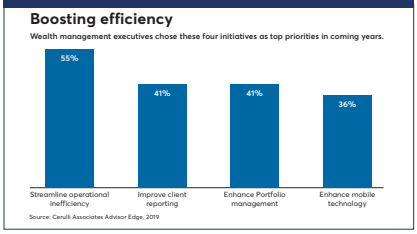


WEB SPECIAL

CFPs in … Crypto?

Regardless of whether they fully grasp the complexities of blockchain, all 83,000 CFPs are now part of a publicly accessible blockchain distributed ledger, giving members a new way to rapidly verify their certification status, due to a new CFP Board initiative. Read more: https://bit.ly/2WJB2HJ

GUIDE TO GROWTH



Too Tough to Pick

Independent advisors face a problem: There too many choices from too many vendors when it comes to tech and they don't always stack nicely. But fintech partnerships may now be making advisor decisions and day-to-day operations a little easier. Read more: https://bit.ly/2RHgwnx

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Financial Planning

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Editor's View

Best Question For Clients — and Yourself

Make sure your conversations include variations of this theme.

Jeff Motske has one of the strongest ways to tease out client priorities I've heard in quite a while.

"What if?" Motske asks clients.

"What if one if your partner needs critical care? What if you want to move to Arizona? What if one of your kids starts a family on the other side of the country?," the CEO of Trilogy Financial asks.

It's deceptively simple, but an excellent method for getting at the heart of clients' values and fears.

"These are critical questions," Motske told me during a recent visit to *Financial Planning*. "You want to ask them before things happen."

Advisors can, and should, turn Motske's "What if?" approach on themselves. What if clients prefer low-cost digital investing tools over your higher-cost services? What if the younger generation becomes so accustomed to getting advice on their phones they eschew human planners?

To chart the path forward, technology editor Suleman Din embedded himself in the tech epicenter of Silicon Valley. "A generation of young, digitally savvy clients are wealthy right now in the Bay Area," Din tells me. "How are planners there adapting real-time to serve those clients?"

What Din learned and explains in his feature, "I Am Not a Robo," can be implemented immediately. Diversify your firm in every way imaginable. Offer multiple specialized services. Learn to code.

"The time is now to change practices, open yourself to new clients and learn new skills," Din says. "The market is evolving in ways that advisors can't control. The only way to deal with uncertainty is to evolve, too. Everyone agrees that wealth management is driving toward a digital future. What will an advisor's place be if they don't seek to make one?"

The same is true for editors. What if we don't adapt to our own digital future? I'm looking into that coding class. **—Chelsea Emery**

Retirement Advisor Confidence Index

Investors Take Stock — Lots of Stock

Clients strapped in for a bumpy ride by buying equities as their planners' strategies kicked in.

By Harry Terris

Client funds were shifting into stocks as market turbulence created buying opportunities and rebalancing strategies kicked in, advisors say.

Flows into equities jumped sharply, according to the latest Retirement Advisor Confidence Index, *Financial Planning's* monthly barometer of business conditions for wealth managers.

The index's reading for equities buying surged 19.9 points to 60.5, its highest level in a year. Readings below 50 indicate a decline, while those above 50 indicate an increase.

The rebound came as healthy employment figures and relatively reassuring corporate earnings eased fears about an imminent recession. One advisor says clients were operating under "the feeling that the market has hit a short-term bottom and headwinds have lessened."

Lower valuations helped. One advisor says, "Most clients consider the pullback to be a buying opportunity."

Another advisor notes that equity exposure jumped "simply due to rebalancing of client portfolios."

The index component tracking flows into cash remained in negative territory at 47. The component tracking flows into bonds gained 1.6 points to 52.1.

Advisors also say that some clients have been pulled into stocks by periodic rallies and the instinct to follow momentum. "The market rebounded and people saw opportunities to get more involved," one advisor says.

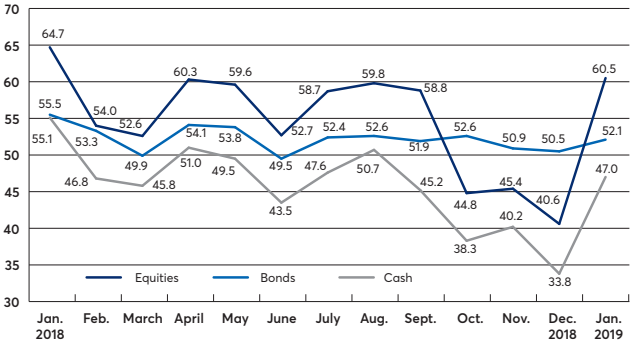
The jump in the stock flow component was the biggest factor behind a 7-point gain in the composite RACI to 52, its first positive reading in four months.

In addition to asset flows, the composite tracks client risk tolerance, investment product selection and sales, planning fees, new retirement plan enrollees and client tax liability.

The composite was also buoyed by a favorable move in the component tracking contributions for all retirement plans, which gained 4.5 points to 58.6.

Advisors say that seasonal factors associated with tax season are now coming into play, adding to automatic contributions that have remained steady throughout recent volatility as clients focused on preparing for retirement. "My clients have been with me through many stock market cycles

ASSETS ALLOCATED TO EQUITIES, BONDS AND CASH



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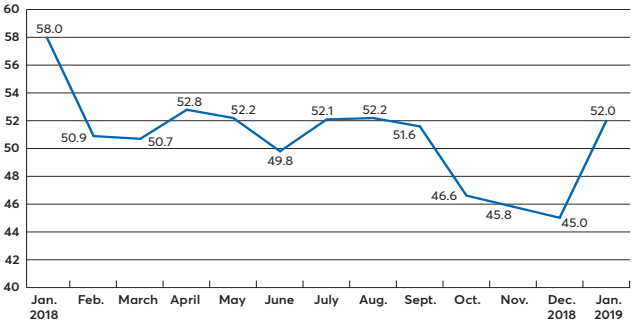
RETIREMENT ADVISOR CONFIDENCE INDEX



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

and therefore they are trained to take a long-term view," an advisor says.

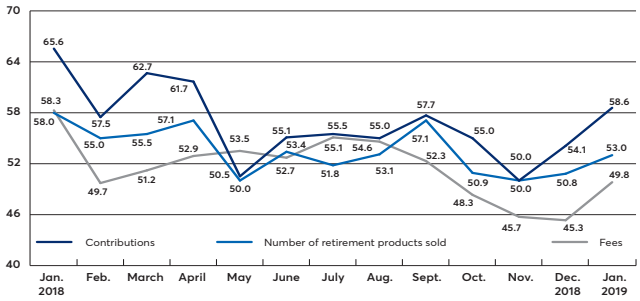
The index component tracking the number of retirement products sold increased 2.2 points to 53, and the component tracking fees for retirement services gained 4.5 points to 49.8.

Despite the rotation into stocks, advisors say clients remain uneasy about a wide array of risks that threaten to end an economic expansion now in its 10th year.

"Clients have been unnerved by the one-two punch of the market drop in their last statements and the government shutdown," an advisor says.

Overall, the index component tracking client risk tolerance remained in negative territory for the fifth consecutive month at 43.2. **FP**

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



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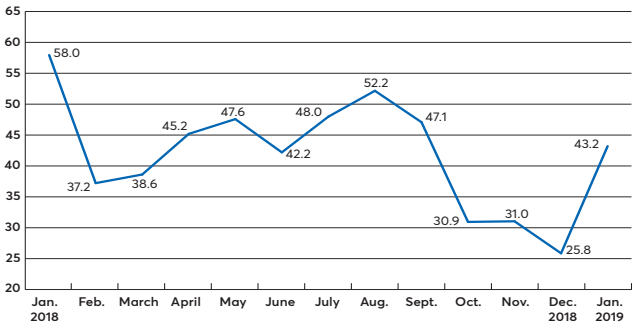
CLIENT RISK TOLERANCE



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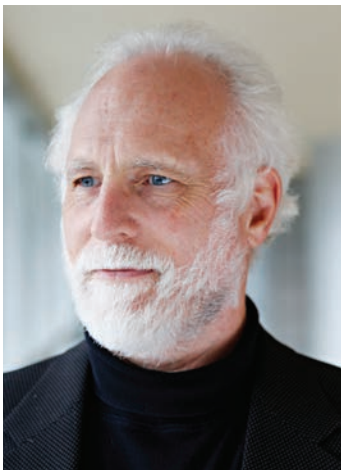
***Harry Terris** is a* Financial Planning *contributing writer in New York. He is also a contributing writer and former data editor for* American Banker. *Follow him on Twitter at @harryterris.*



Is Reg BI So Bad It's Good?

State officials are stepping in to propose initiatives to protect consumers against salespeople wrapped in fiduciary clothing.

By Bob Veres

Three cheers for the SEC's new Reg BI! Hip-hip —

OK, I know most of you have seen a somewhat different tone in my past columns regarding the SEC's proposed Regulation Best Interest rule — its most recent efforts to inform the public about who is regulated by whom, and what those standards may be.

If you missed it, the gist is that I believe that wirehouse lobbyists had a heavy hand in formulating the proposed disclosure language. As written, it would make reasonable people believe that brokers are acting at all times in their customers' best interest.

They would get that subtle hint from the fact that the SEC actually, in the proposal, renamed the suitability (sales) standard a "best interest" standard — without actually changing the obligations that a broker has to his or her customers.

It's as if the SEC provided the brokerage and sales world with custom-tailored sheep's clothing, so that the predatory sales activities could be carried out more efficiently.

So why am I cheering?

Because it looks like this time the SEC went too far, and I can see a fiduciary genie peeking out of the bottle. When the SEC ignored the '40 Act and decided that brokerage firms could advertise as advisors, without being regulated as advisors, a lot of us winced, and the FPA actually filed (and won) a lawsuit.

Big deal; nothing changed.

When brokerage firms sold cleverly packaged junk bonds to customers, and even invited hedge funds to design products that were destined to fail so they could bet against them, most of the free world winced, but the SEC seemed to regard the whole mess as business as usual.

After it was disclosed that the SEC enforcement staffers ignored a persistent whistleblower who had proof that Bernie Madoff was running a Ponzi scheme, and after Madoff himself threw the SEC examination team out of his office before they could finish their evaluation, some of us began to suspect that the SEC's commitment to protecting the public was somewhat compromised by its commitment to making sure the brokerage business model, and sales activities in general, would be unimpeded by pesky regulatory intervention.

State regulators and lawmakers are disgusted by the SEC's weak regulatory hand — and that's why I'm cheering the BI.

And so the most profitable business model in the financial services world — sales professionals posing as trusted advisors — continues to be the stinky center of gravity in the advisory world.

But after Reg BI, something changed.

The proposal so blatantly tipped the playing field in favor of the brokerage world that state regulators and a number of state legislators seem to have decided that they have no choice but to take matters in their own hands.

If they truly want to educate and protect the

public, then they have to go around the SEC and do it themselves.

These regulators and legislators also noticed what the public seems to have missed: that in multiple lawsuits against the DoL's fiduciary rule, SIFMA (the trade/lobbying organization for brokerage firms) and the Financial Services Institute (the trade/lobbying organization for independent broker-dealers) argued and actually proved that their agents, reps and brokers are not advisors at all, but merely sales agents who should not be required to adhere to fiduciary standards.

The first two initiatives are coming from Nevada and New Jersey. Nevada's draft regulation imposes fiduciary duties on financial planners — and manages to include brokers in the definition.

On the surface, it seems pretty straightforward and logical: It says that a fiduciary duty would be imposed on a broker-dealer or sales rep whenever such entity or person provides investment advice, performs discretionary trading or maintains assets under management.

Brokers and reps can avoid being required to treat their customers the way they would treat their grandmother if they don't provide ongoing investment advice and don't hold themselves out as an advisor, financial planner, financial consultant, retirement consultant or planner, wealth manager or counselor. (One hopes this applies to the advertisements by the parent company.)

The comment period just ended, and both SIFMA and FSI are arguing that fiduciary rules cannot be imposed because this would require their reps and brokers to maintain additional books and records — a violation of the provisions of the National Securities Market Improvement Act.

They are likely following the same lobbying path in New Jersey, where the state regulators and the state legislature are both considering "making it a dishonest or unethical business practice for failing to act in accordance with a fiduciary duty when recommending to a customer an investment strategy, or the purchase, sale or exchange of any security or securities, or providing investment advisory services to a customer."

It seems the SEC provided the brokerage and sales world with tailor made sheep's clothing, for more efficient predatory sales.

But this is just two states, right? What kind of impact could it have if two states impose a fiduciary standard, while the SEC merrily puts its finger on the scales for the other 48?

There are two ways these individual state initiatives could change the game for consumers and salespeople in fiduciary clothing.

First, if certain states required brokers to act as fiduciaries, the brokerage firms would have to amend their policies at a very deep level, not only for their brokers and reps operating in those states, but for anyone who might have a customer who moves to one of those states.

They would also have to be careful with their national advertising campaigns. For instance, if they buy time during the Super Bowl to invite viewers to "consult with one of our financial advisors," they instantly make all of their brokers have to live up to fiduciary standards in two states.

Second, and perhaps more importantly, successful regulations in one state are often copied in others. They evolve into uniform rules that are then considered by all the other state legislatures — probably, in this case, first in the more liberal East Coast and West Coast states where consumer protections are taken more seriously, and later in states that will be embarrassed that they have failed to protect their citizens as rigorously as the people who live on the other side of the state border.

There are already some signs that the genie is emerging from the bottle.

The New York State Department of Financial Services has proposed fiduciary standards regarding the sales of annuity and life insurance products. A new fiduciary bill has been introduced in Maryland's state legislature. Will California be far behind?

I expect that the books-and-records argument will be swept aside by state regulators and lawmakers who are disgusted by the SEC's weak regulatory hand — and that's why I'm cheering the BI proposal.

The SEC seems to have finally crossed a red line in the minds of people who are in a position to see the damage that sales-disguised-as-advice can do to the consumers they have sworn to protect.

And that also means that SIFMA's and FSI's last, most effective argument may also, finally, be swept aside: that the states should wait for the SEC to come out with its own proposal.

They did. It was a mess. It clearly exposed the SEC as a guardian of the brokerage business model rather than the consumer. Now the genie is emerging from the bottle, and the states are taking matters into their own hands.

Now everybody: Hip-hip — **FP**

Bob Veres, *a* Financial Planning *columnist in San Diego, is publisher of Inside Information, an information service for financial advisors. Visit financial-planning.com to post comments on his columns or email them to bob@bobveres.com. Follow him on Twitter at @BobVeres.*

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Social Media Pitfalls

Forget the digital candy. Likes are nice, but they don't turn into business until you've honed your message.

By Kimberly Foss

I remember the moment I realized the internet was about to change every aspect of my life. On my commute home, I noticed a van that belonged to a plumbing company. The company name, slogan and contact information were painted in bright lettering, accompanied by a snappy logo. And at the bottom, the URL for the company website.

A website for a plumbing company? What possible use could that be, I wondered. (Remember, this was in the days when we thought the only way to get an estimate was to call for an appointment ... on a landline.)

Now, of course, my surprise seems quaint. Today, we're surprised when someone doesn't have a personal web page and a suite of social media handles.

As advisors, we know if we want to be taken seriously, we must have an effective digital and social media presence. According to Pew Research, 74% of online adults use social networks regularly. More specifically, nearly 5 million affluent investors use social media to research financial decisions.

Indeed, among advisors who are very active on social media, more than 70% reported an increase in AUM or revenue due to social media marketing.

Further, according to 2017 benchmarks, financial services has an average cost-per-lead of $272, one of the highest such rates of all industries. That makes sense given the size of investable assets and the long sales cycle. But it also signifies the opportunity at hand for firms willing to invest in digital marketing strategies.

The bottom line is that any financial services enterprise wanting to remain relevant over the long haul must not only understand digital marketing and social media, but also requires a well-positioned, thoughtfully presented online identity that engages via social media, website pages, and emails.

But how? We've all asked that question, especially those of us born too early to be considered digital natives.

And many committed the same initial error that I did: We used the good old pasta method: we threw blogs, tweets, social media posts and guest articles at the virtual wall to see if anything would stick. We thought that if we were everywhere all the time, surely we'd be somewhere at the right time.

All of the likes and "shares" we were getting initially felt good, but they weren't resulting in new business.

What I now realize is that this non-strategy was a recipe for social media burnout and failure. After all, how many of us would tell our clients, "We're going to try a little bit of everything, and maybe something will work"?

Instead, we spend time to find out what is most important to them; we assess their level of understanding; we evaluate market-tested, evidence-based methods with a track record; and only then do we develop recommendations for a long-term plan designed to put them on the path to success.

Essentially, I needed a digital marketing and social media consultant who could work with me the way I work with my clients. And I was fortunate enough to find one when I opened conversations

with Gretchen Halpin of Beyond AUM, a firm that specializes in helping financial advisory firms understand, define and implement solid digital and social media methods for practice management and growth.

What her team helped me understand was that my digital and social media strategy needed to mirror and incorporate the character of my practice. In the same way that I focus my attention on clients with certain common characteristics — women in transition, thriving retirees, family stewards — my content, search engine presence, and social media funnel needed to be differentiated with these audiences in mind.

Instead of a scattergun approach, in which I aimed at everything in general and nothing in particular, they explained that I needed a purposeful intake strategy, one shaped like the results I wanted to achieve.

The concept made sense to me. After all, this was the same approach I took with my clients. But as I would learn during the initial implementation phase, the transition to an orderly, disciplined social media strategy isn't a 45-degree path from bottom left to top right. Just as with the financial markets, there are starts and stops. In the same way I constantly counsel my clients to stay the course with their long-term strategies, my new team had to remind me — they still do! — that building an effective digital presence requires time.

We used the old pasta method, throwing blogs, tweets and social media posts at the virtual wall to see what would stick.

For instance, in the days when I was cranking out all those haphazard tweets, blogs, and other efforts, I was actually getting lots of likes, follows, and shares. Like any short-term gratification, that felt nice. But very little of that was resulting in new business for my firm. Why? Because most of that social media candy was coming from individuals who were not qualified prospects for my services.

Still, that during the early months of implementation, I started to get antsy. Where were all my likes? Why weren't my articles getting shared as often? Somebody had taken away my candy, and it made me nervous.

And then I was contacted by a person who had been following my social media profile for the past few months. As he began talking, I learned that he was not only qualified for our firm's client profile, he was interested in learning more about our services. He said to me, "I feel as if I can trust you, because the things you've been talking about in the media and online are the same things I'm concerned about. I sort of feel like I know you."

Eureka! Things began to make sense. I realized that focusing on vanity metrics such as likes and shares is a lot like reacting emotionally to the market instead of staying focused on long-term outcomes.

When our social media and digital communication strategies speak directly to the goals and unique challenges of our ideal clients, those are often the people who respond.

You get what you ask for. The key is to understand what you're asking for and to put your request in the best possible format.

I've learned a few valuable rules of thumb for those going through the process for the first time:

1. Segment your client base into the niches you wish to serve.

2. Audit your content to address their unique financial planning questions, as well as to determine your future content needs.

3. Study your keywords: What brings visitors to your website or social media?

4. Appearances matter: make sure your strategies and platforms represent your brand well.

5. Amplify! Put your content to work for you. Make sure it is optimized for search engines, and that it is being posted at the right time in front of the right people.

6. Repeat. Just as a financial plan is not a one-and-done process, you must stay consistent about your digital philosophy and continue to add value.

Don't put yourself into a digital frenzy, trying to do everything for everybody all at the same time.

Instead, spend some quality time with a media and communications professional who can help you tailor the right strategies for the client populations you are most interested in serving.

That's one of the most important stepping-stones toward building a practice that will remain relevant and profitable, long into the future. **FP**

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At Mirador Capital Partners, Dan Murray (l.) and Jonathan Ting, along with their colleagues, are fluent in the language of tech-savvy millennials — increasingly the type of clients advisors are trying to attract.

PHOTOS BY PATRICK STRATTNER

I Am Not A Robo

In the land of tech startups, the young, wealthy and plugged in still need planners — ones who can embrace the best of robo practices while keeping the human touch.

By Suleman Din

The light flashed green at the busy San Francisco intersection as Cody Wilson joined the backpack-toting crowd walking to work. Just then, his cellphone rang. A reprentative from Bank of America, his bank, was calling to get his opinion on its Merrill Edge trading platform. Wilson, a 31-year-old customer success manager at a data startup, gave the rep an earful. The platform was neither as much fun nor as simple to use as the millennial-focused trading app Robinhood, he said. Nor did the bank's app have an easy way to invest in low-cost mutual funds; much of its fare instead was Merrill Edge Select Funds.

"In my peer group, there are two divides," Wilson said later. "People who sign up for a 401(k) at work, pick a target date fund and that's it. The flip side is people who know more but are very price conscious — expense ratios, what return they are getting out of a fund."

By the time Wilson had finished crossing the street, the Merrill rep had received a valuable lesson about the client divide: just because a platform is digital doesn't mean that's all a client wants. It's a lesson RIAs would do well to heed as they, too, grapple with attracting clients in an increasingly digital-first market. If they ignore the challenge, their practices risk becoming obsolete.

"Advisors will always be needed because there will always be people who want to outsource work regardless of value for money," says Iraklis Kourtidis, CEO of the automated investing software firm Rowboat Advisors in Menlo Park, California. "But over time, I see people wanting to interact with institutions like banks less and less … and I don't know if planning will retain value, because it's so subjective."

But could the solution, as well as the problem, lie in Silicon Valley?

The prevailing attitude among Bay Area advisors is to acknowledge digital-first as a real transformation in wealth management and automated advice as a valid option, rather than dismissing it entirely.

Many of their clients are like Wilson — young, wealthy, plugged-in and highly skeptical. Yet planners here still win their business, despite an influx of new robo and hybrid digital offerings. Hyperattuned to the challenges facing traditional planning, these advisors possess the tools to combat them. Their successes offer lessons for firms seeking insight into how to evolve.

While many advisors acknowledge that new technology will help them expand their practices and offer more services to clients, it's not as simple as slapping on a digital platform and calling themselves "hybrid."

Indeed, even true hybrid firms, where human RIAs work through digital platforms, are seeing a relentless push toward technology that will shift the definition of financial advice as a service. "One way we think about this technology and data wave is that it is going from a world of mass production to mass personalization," says Jay Shah, CEO of the Bay Area digital advice firm Personal Capital.

Advisors based in the Silicon Valley region recognize, for the most part, that automated advice is not a passing fad. So they embrace it.

Myles VanderWeele, a principal at the advisory Bingham Osborn & Scarborough, says his approach of defending against robo advisors has actually won over skeptical clients.

"I tell them, if you enjoy it, if you get the general basics of risk and return, by all means save yourselves 1% in management fees," he says. "My experience is most people don't have the time and end up making mistakes, not because they are dumb, but because life gets in the way.

"Robos are great; I really believe they provide an incredible service," he adds. "Before, there was no real great way to get a well-diversified, low-cost portfolio calibrated to your risk tolerance if you had [only] $100,000."

In Silicon Valley, there are constant reminders that business must always evolve, VanderWeele says. "A few years ago, we had clients come in — a married couple, she worked at Google and he worked at Uber," he recalls. "We used to put fund prospectuses on a CD-ROM and give it to clients as part of the process. We took it out, and the client said, 'Is that a CD-ROM? I haven't seen one in years.' That was the last time we did that."

Advisor Coders

Advisors need to upgrade their own technology skills, says Jeff Smith, managing partner at San Francisco-based FundX Investment Group.

He is an example. Off-the-shelf rebalancing software didn't feature the portfolio customization the firm wanted to offer clients, so Smith taught himself to code. Over six months he wrote the rebalancing software the practice uses today. FundX is now considering going to market with the software.

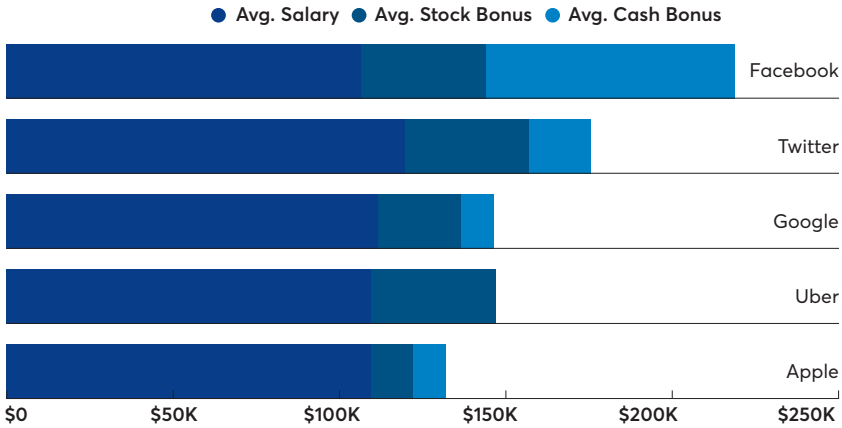
As a bonus, the process helped Smith bond with a number of clients who are developers — they wanted to know how to build the software, which in turn led him to new prospects.

Though he acknowledges they're not easy to come by, Smith recommends that firms have at least two advisors on staff who know how to code. "It's where you want to add value," he says. "It gives you insight into complex thinking, which helps to innovate the firm in general. It's the future of RIAs and wealth management."

Technical skills at the advisor level are also important, he adds. As firms grow, they should strive for a little bit of customization, "something different

Raking It In

Total comp for new grads at Silicon Valley's top tech firms



Source: 2017 company data compiled by independent researcher Jesse Collins

that you can talk about," he says. "Myself, I can interface with developers in a much more efficient way than if I didn't have those technical skills. Our website has interactive elements that if I wasn't a coder, I wouldn't be able to design with an external firm as efficiently as I can."

No Silos

Bay Area firms are also breaking down traditional approaches to prospecting for clients and servicing them.

At Three Bridge Wealth Advisors in Portola Valley, California, which works with first-generation, self-made and young high-net-worth individuals, the 50 clients are shared, so each advisor knows the details of every client, says Brett Sharkey, a managing director.

"My colleague might be the lead advisor who brought the client into the firm, but everyone is working on that relationship," Sharkey says. Doing so breaks down silos common in traditional firms, he explains.

It also allows the firm to offer multiple specialized services — private career coaching, medical care, access to employment legal counsel — for clients, many of whom have come into wealth at startups.

Three Bridge undertakes a lengthy screening process, conducting at least three 90-minute conversations with prospects before determining whether to take them on. Clients are asked 60 questions about their financials, values, goals and relationship priorities.

The firm asks which professionals the prospect is already working with, to coordinate outreach. It even asks how much contact the client wants to have. There are typically two advisors present in every client meeting.

It is a very hands-on practice, and doesn't allow the firm to scale as easily, acknowledges fellow managing director Eric Thurber. "We feel like, in order to have the maximum impact, in terms of what these people want and need, one individual can't manage that," he says. "No one can be an expert in everything."

PATRICK STRATTNER

Texting is one way Mirador Capital Partners has updated its communication with clients, says Dan Murray (l.), a principal, in conversation with Adrian Jones (c.), the firm's executive vice president and co-portfolio manager Jonathan Ting.

Another difference between Three Bridge and other firms: It will work with clients who may not yet have the desired level of assets for management but do have the potential to become high earners in the near future and need guidance to get there.

Serving successful serial entrepreneurs and emerging young clients on the cusp of fortune is a balancing act that requires traditional wealth managers and banks to rethink their focus on investment management, Thurber says.

"These people want someone with all the knowledge, expertise and understanding to advise them on what they would do in their situation, not what will make the advisor more money," he says.

Advisor Diversity

Another strategy among regional firms is broad advisor diversity for maximum client appeal. At Mirador Capital Partners' office in Larkspur, California, north of San Francisco, the team is almost evenly split gender-wise, and its most recent advisor hire is a CFP in her 30s. "We're growing for the future; we're building that bench," says Adrian Jones, the firm's executive vice president. "We have two women and two men on our management committee, so we have that gender balance. We want to reflect what our communities are like within our own firm. Women are making a ton more financial decisions."

Gender diversity is just one way the firm is spanning the cultural gap with younger clients, says Dan Murray, a principal at Mirador, which also has an office in Pleasanton, California.

Another is allowing diverse client communication approaches, such as texting. Mobile conversations are actually more engaging, he says, because of their immediacy. "I've learned two minutes is a superslow response," he says.

"The rules of communication have changed forever," adds Murray, a Gen Xer. "My generation has the steepest learning curve. But if you don't learn it, it's like saying I'm moving to Spain to be a financial advisor. If you don't speak Spanish, you're not going to get any clients. If you don't understand this millennial generation or people who are tech-heavy, you're not going to speak their language."

Mirador prides itself on being completely transparent about client fees and offering investments that reflect client values, he adds. "That's what clients are demanding now," he

says. "So make sure on the fee side that clients know what they're paying for, and you're delivering on that."

With many wealth management options available, the winning approach for many young clients is one that is intensely personal and human, not digital or mass emailed, says one prospect.

The Smartest Way

"The smartest way for these people to get in touch with us younger entrepreneurs who are on the cusp is to go through one of our friends, go through somebody we trust," says Grant Wernick, founder and CEO of Insight Engines, a machine learning software startup in San Francisco. "It's just like anything in life; you filter through the people you trust."

Wernick recalls a deluge of pitches not long after his startup raised over $15 million in capital in July 2017. "All the big firms come at you," he says. "You'll get emails from random money managers in New York."

Another non-starter is the pitch from salespeople, Wernick says. "They're actually passing you off to someone you've never met to manage your money," he says. "They're just there to get your money into that institution."

Firms that win over rich young entrepreneurs need to understand the mindset of these clients, he adds. Personal wealth "is not something we think about every day. It really isn't," he says. "If you're really someone who is trying to found something and change the world, you're thinking about, 'How do I make this company I'm creating out of thin air into something bigger?'"

That's the dichotomy of successful young entrepreneurs in a digital-first world, Wernick says. "Because we have so little time, you actually want a face. You want somebody to call. And that's interesting in a day and era where I'm trying to automate so much. I'm literally creating a company to augment humans and have machines do the mundane. Yet I want the convenience of a human I can call."

This doubling down on human delivery ties to a shift in what future RIA clients expect from financial advice, says Doug Fritz, founder of the Bay Area-based industry consultancy F2 Strategy. "If you hired a smart person, they would buy you a great stock and you'd be able to get a sailboat; that image drove our industry 20 years ago," Fritz says. "Now the really powerful norm to latch onto is, you will be there when I need you. You're not just trying to outperform the market, and during a downturn you'll be there watching my back. For emerging wealthy folks in the last 10 years, that's what resonates."

To implant such practice growth strategies, the best way forward is with an incremental focus, says Tim Welsh, founder of the wealth management consulting firm Nexus Strategy.

Take, for instance, the confusion advisors often feel when faced with deciding what tech to invest in. "The technology tools are out there: Black Diamond, Orion, Tamarac, MoneyGuide Pro. Are you using them, or are you defaulting to spreadsheets and email?" Welsh says. "It's a matter of adoption."

The Client Experience

Welsh suggests RIAs identify one client experience to improve and deploy the software. "You cannot do everything," he says. "Pick one piece of your practice for automation. That's your tech strategy for 2019. If you don't, the next thing you know, you're behind in your workflow."

Advisors should also take heart that the change isn't for naught; young clients are looking for that connection.

Though Cody Wilson wasn't impressed with Merrill's trading platform, he still hopes to one day have a relationship with an advisor. His mother has an advisor in his hometown, Pullman, Washington.

"When I originally sat down with those folks, I didn't have a lot of assets in play," he says. "Now it would make more sense, as I am doing more in real estate. I want to get smart about tax harvesting, but I don't know anything about it. I would defer to a professional on that."

Like Wernick, Wilson wants a human connection with his wealth. "It would be nice to have a relationship," he says. **FP**

Average Weekly Earnings, Private Sector

	San Francisco metro area	San Jose metro area	U.S.
2014	$1,098	$1,391	$827
2015	$1,172	$1,408	$850
2016	$1,188	$1,428	$872
2017	$1,282	$1,555	$905
2018	$1,315	$1,506	$910

Source: U.S. Bureau of Labor Statistics

***Suleman Din** is technology editor of* American Banker *and* Financial Planning. *Follow him on Twitter at @sulemandn.*

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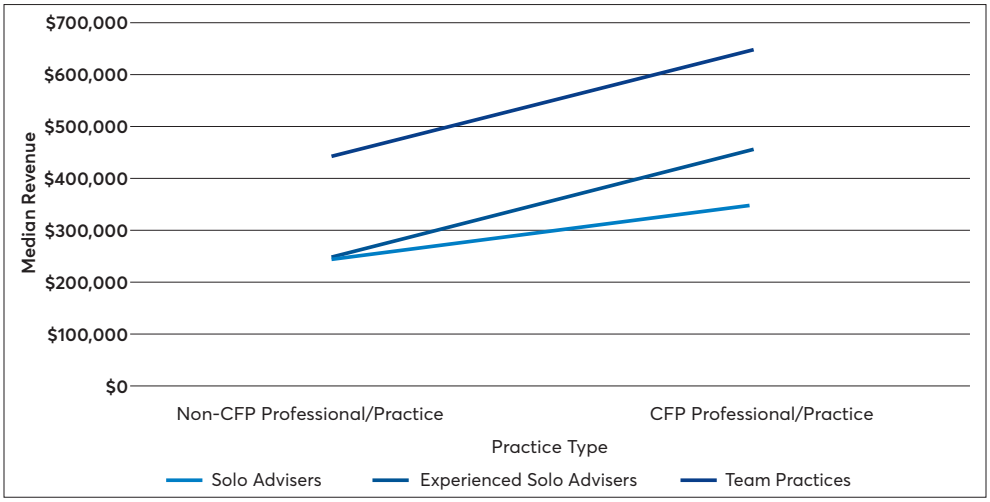
Revenue of non-CFP vs. CFP Professional Practices

Those who earned CFP certification generated substantially higher median income.



Source: Aite Group report, "Building a Wealth Management Practice Measuring CFP Professionals' Contribution"; Michael Kitces

'Never Better' Job Market

The outlook for advisors is better than many in the industry might believe.

By Michael Kitces

Cerulli Associates estimates that there are just over 300,000 advisors in the U.S. This number has caused some hand-wringing in our industry — for all the wrong reasons.

Despite forecasts suggesting the advisory industry will shrink in the coming years, there's plenty of cause for optimism. For one, a coming retirement wave will take much longer to materialize than first thought. And instead of being a threat to advisor jobs, technological efficiencies will help the industry expand into underserved markets, increasing demand for advice in the long run.

That's why I think the market for advisors has never been better — and tomorrow's looking even brighter.

Figuring out how many advisors there actually are and whether our ranks are contracting or growing is a big source of consternation in our field, especially in light of the rise of robo advisors and the general move toward automation.

The latter point bears some unpacking. One of the primary reasons the advisor community has struggled to acquire better technology tools is that entrepreneurs, angel investors and venture capital funds think the advisor marketplace isn't big enough to be profitable for them. And given that they subscribe to the idea that total advisor headcount is decreasing, they see no upside to investing in what they consider to be a shrinking marketplace.

Whatever the trend, the individual advisor is impacted. If total headcount is shrinking, there would be consolidation, mergers and acquisitions, and more succession plans. The clients of advisors who were leaving would have to go somewhere. It would also mean competition among advisors would soften, as there would be fewer advisors to compete against for clients.

On the other hand, if advisor headcount were growing, competition would rise. And it also would make room for new firms. If there are more advisors coming in than there are leaving, just trying to find a retiring advisor's book of clients to take over would be difficult.

Knowing which segments are growing and shrinking is also important, as the firms that serve us largely base their resource decisions on these trends. This is why Commonwealth Financial Network's announcement that it's launching an entirely fee-only RIA unit for its advisors was such a big deal.

That's right. A broker-dealer whose existential functional was to facilitate the sale and distribution of investment products for a commission created a new division to accommodate its growing base of fee-only, zero-commission advisors. Even if the total headcount of advisors weren't growing, individual segments could

still be developing, which then creates new business opportunities.

Playing the Numbers

Determining how many advisors there are is surprisingly difficult.

Even though we all have to register with our regulators, our roots in product sales preclude a pure advisor headcount from emerging.

Instead, we register as insurance or annuities agents with the state, or as registered representatives of broker-dealers with FINRA, or as investment advisors under an RIA with the SEC or states, depending on the size of the firm.

The net: There are a lot of places to look before arriving at a headcount. And of course, not everyone registered with those regulators is an advisor. The media likes to cite BrokerCheck's tally of 600,000 with FINRA licenses, but a number of FINRA licenses have nothing to do with giving advice. Indeed, many cover narrower products or services outside the scope of traditional advice, such as the Series 31 for running a managed futures fund or the Series 79 for investment banking.

Some may have taken a Series 24 principal exam or a Series 27 FINOPs principal exam.

The actual number of people registered with FINRA who are truly client-facing with retail consumers, and even in a position to give advice, is less than half of the 600,000.

And of course, many advisors do business in multiple channels. We could be dual-registered with FINRA and under an RIA.

Historically, many of us who were FINRA-licensed were also licensed with the state to sell insurance and annuity products. And some RIAs today maintain a state insurance license even if they don't have a FINRA license, because they're selling fixed insurance products, such as, universal life for estate planning purposes.

Cerulli estimates our ranks at 311,305. That number represents the spread across all industry channels, from wirehouses to independent broker-dealers to RIAs.

The caveat here is that not all of those advisors actually provide advice. Cerulli has a fairly rigorous definition of "advisor," but it does set the bar fairly low. Consequently, Cerulli's there are over follow-up research has found that less than half of them even state they offer planning advice to clients.

Advisors Who Don't Give Advice

I don't know what it means to be an advisor who doesn't give advice.

Even among those who say they're doing planning, some are very in-depth and comprehensive, while some aren't going that deep, instead simply offering the prepackaged output from planning software.

But when more than half of advisors don't even say they do that, the true number of advisors who give planning advice to clients is well under half of the Cerulli estimate.

That isn't entirely surprising, given that the number of CFP certificants is only about 82,000 — not even 30% of Cerulli's number.

And while I think there are some non-CFPs who give good planning advice, not all CFP certificants do provide comprehensive planning advice. That cohort — advisors who are compensated for giving advice — likely comes in below the 82,000 total CFP certificants. That is our baseline. Cerulli has been predicting that the number of advisors will shrink significantly for years.

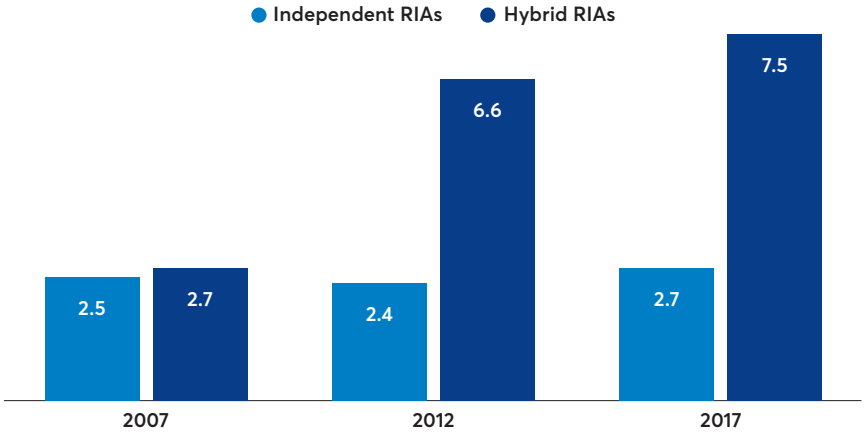
Back in 2013, when the firm estimated there were just over 300,000 advisors, it predicted that, within four years, we'd be down to only 280,000. This prediction was driven by the fact that nearly half of all advisors were over age 55 and more than 8,600 advisors would hit retirement age every year for the next decade.

Couple those 100,000 cumulative advisor retirements with the rise of robos and other technological efficiencies, and the wisdom held that total advisor headcount would continue shrinking.

But as I've maintained, I think

Sign of 'Acute' Consolidation

The number of advisors per hybrid RIA has nearly tripled over the past 10 years.



Source: Cerulli Associates, The Cerulli Report - U.S. RIA Marketplace 2018: Designing a Framework for Independence

Cerulli's forecast is dead wrong — and I don't say that with any disrespect.

The firm does a fantastic job with its research, and I recommend them frequently, but the projection on this particular issue misses some key points.

The first is simply that planning is not a business you retire from just because you're eligible for Medicare and a Social Security check.

This is not an industry that makes your body give out in your 60s. It's about client relationships bolstered by experience and a lifetime spent building reputation in your community.

Increasing Income

In our recent research into the planning process, we found that the average income of an advisor with 30-plus years of experience is almost $400,000 a year, and that income on average continues to increase further as they keep working past 30 years.

A number of those advisors aren't necessarily working that hard after 30 years either — not prospecting so aggressively; dialing back on upfront work; outsourcing some key parts of their business; letting less profitable clients go; changing firms or platforms one last time; or even tucking into a larger firm to ensure a continuity plan.

Who retires from that just because they're eligible for a Social Security check that represents a fraction of the income they see from work they enjoy?

This is why I said six years ago that forecasts portending a shrinking advisory industry and a looming succession planning crisis would turn out to be total mirages.

It's the reason that the latest FPA study still shows only 30% of advisors have a formal written succession plan, because the rest aren't leaving. There's no reason to.

And sure enough, here we are in 2019, and the total number of advisors is not down, but up.

Career Changers

The other reason that the prediction for declining advisor headcount is overstated, in my view, is that it's based on the presumption that we won't bring in sufficient new advisors to replace the retirees.

To be fair, we collectively have trouble recruiting millennials. We're still largely seen as a sales-oriented industry, and millennials don't want to be salespeople.

This problem is compounded by the fact that, as noted earlier, more than half of advisors openly admit they don't give any planning advice, yet they still recruit young people who then find out the hard way that they were recruited into sales jobs.

Disillusioned, those young people leave the industry for good, never having seen the real side of advice.

And even with more students studying planning in school, the CFP Board found a few years ago that more than two-thirds never even took the exam after graduation.

But this trend fails to capture career-changers.

As much as we talk about the challenges and risks that technology poses to our profession, technology is already impacting other industries, which in some cases is driving people to change careers.

When you're weighing new career options and the average lead advisor still earns almost three times the median household income in the U.S., that makes it a pretty compelling career track.

And it's not just about people coming from unrelated industries, but also from our more directly affiliated professions with ties to financial services, such as law and accounting.

This is why the AICPA's personal financial planning section is growing so much. While we're busy debating whether robo-advisors might commoditize parts of investment management, tools such as TurboTax have commoditized a lot of the accounting business, particularly when it comes to tax preparation work.

And so as technology squeezes CPAs in the tax-prep business, it pushes them toward becoming advisors.

The CFP Board found a few years ago that more than two-thirds of students studying planning never took the exam after graduation.

This is also true for estate planning attorneys. With the estate tax exemption up to $22.4 million for a married couple, from just $625,000 per person 20 years ago, the number of people exposed to federal estate tax has fallen by more than 95% in the past 20 years.

There may be no more than 2,000 estates per year across the entire U.S. with federal estate tax exposure, according to recent estimate from the Heckerling Institute,

There are a lot more than 2,000 estate planning attorneys out there, and most of them need more than one client per year to make a living.

So where to go when you can't even go down market to manage the more basic estate planning documents for client because technology companies such as LegalZoom have already gotten there?

You become an advisor.

Unfortunately, our industry can be tough on career-changers.

Satisfying the CFP Board's experience requirement when you're making the transition is particularly onerous. And while the income potential for planners is great, in the near term it often requires a big step backward in income. And that's saying nothing about the difficulty of ramping up on a

part-time basis. The key point remains that, while we may fret about technology squeezing out advisors, right now it's squeezing out even more people from other industries.

The Technology Fallacy

The final reason that I think we should still be bullish on job opportunities for advisors comes down to the technology itself.

The dominant narrative for the past five years has been whether or how much robo advisors would diminish the need for or replace human advisors. But technology often plays out in unexpected ways, and I think a great case in point is what happened to bank teller jobs when ATMs showed up. When ATMs came online in the 1970s and '80s, nearly 500,000 human teller jobs stood to be eliminated.

And while banks did roll out almost half a million ATMs in the '80s and '90s, by the '00s the number of human teller jobs was up to 600,000 — despite the proliferation of ATMs. In other words, the result was a net increase in both technology and jobs.

As some follow-up economic research showed, the introduction of the ATM brought down the cost of banking. It made it more efficient — so much so that banks opened branches in communities they hadn't served in the past.

And so while the number of tellers in each bank branch did decrease on account of those ATMs, tellers were deployed to new branches, with more tellers hired on top because the branches were now profitable to run with a combination of humans and technology in a way that wasn't possible with humans alone.

The ATM has yet to replace human bank tellers.

This is the kind of path I see for our industry. Given that most advisors can only serve about 100 clients in deep advice relationships — and in the late stage of their careers often winnow that number down to their 50 best clients — even 300,000 advisors at 100 clients each will only serve 30 million households. There are almost 120 million households in the U.S., meaning there are barely enough of us to serve one-fourth of all U.S. households.

As mentioned earlier, half of those advisors fully admit they're not actually giving any planning advice. Consequently, the number of households we could possibly serve is less than half of that prior number, or maybe 15%.

And if we narrow that down further to account for just the number of advisors with CFP certification, we couldn't even serve 10%. There's an immense amount of room for technology to make us more efficient, bring down the cost of advice and serve the other 85%-plus of households we don't serve today.

And as technology continues to exert pressure on the advisor's value proposition, it's driving more advisors into actually giving advice. Cerulli's own study reported that almost half of advisors were doing planning, up from only one-third four years ago. Because even as the number of advisors in total is roughly flat, the number of real advisors giving advice is rapidly growing.

That's why the CFP Board is seeing record numbers of new people sitting for the CFP exam, and the number of CFP certificants is up nearly 25,000 since before the financial crisis — even though the number of advisors has declined by 25,000 since then.

Simply put, if you really want to measure whether the opportunity for advisors is growing, the better leading indicator is not a total headcount, but the growth of CFP certificants.

That number has not only grown unabated for the past 20 years, but is growing faster and accelerating as technology makes planning — and planners — more efficient and, yes, more in demand. **FP**

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

Reducing Lawsuits If Markets Fall

Even the best clients in the most appropriate investments can panic when they watch their hard-earned savings shrink on a daily basis.

By Alan J. Foxman

Q: After 2018's market volatility, several clients began complaining about unrealized losses in their account or asking us to get them out of the market. These investments were mostly growth-oriented mutual funds for middle-aged clients who had no immediate need for the money.

I tried explaining at that time that the funds were solid performers and that if the clients liquidated then, they'd likely take significant losses.

We went through this in 2008 when some clients panicked, sold, took big losses and subsequently blamed us when the market recovered. Even though we won the arbitrations that were brought against us back then, it cost a lot of money in attorney's fees.

I'd like to avoid being sued again, but these clients just didn't seem to get it. Do you have any suggestions?

A: The way to minimize lawsuits starts with the initial client intake. (Note that I didn't say "avoid" lawsuits. That's because it's difficult, if not impossible, to completely ward off being sued in this day and age. So your best bet is to simply try to minimize your exposure.)

It may seem like common sense, but the first step is to analyze prospective clients for signs of litigiousness. How many other brokers and brokerage firms have they had in the past? Why did they leave those other firms? What is their experience with prior bear markets and how did they react in those situations?

You'll find that the clients who are most likely to sue are usually the ones who blame everyone but themselves when things go poorly.

Remember, no matter how big the account may be and how tempting it is to land a "whale," to determine the prospective client's real value you have to weigh potential commissions against the cost in legal fees and time spent in arbitration hearings. Sometimes the most lucrative thing you can do is turn down a prospect.

Assuming the client appears to be sane, it then goes without saying that the investments should be suitable for him or her.

The worst thing you can do is avoid talking to a client — no matter how painful the discussion may be.

In particular, I would pay close attention to the client's stated risk tolerance if that's not something you've emphasized in the past. Some of the better suitability questionnaires that I have seen include questions that ask the client what they would do when the market is down.

Documentation from clients indicating that they would hold investments during a downturn until

they recover can make an attorney think twice about taking a case where the client went against their own philosophy.

Sometimes, however, even the best clients in the most appropriate investments can panic when they're watching their hard-earned savings shrink on an almost daily basis.

For those clients, the best you can do is to keep talking to them: Show them how the securities markets have recovered after past crashes, and explain why their investments are still solid and dependable.

And, most important, show them that you have confidence in your recommendations and that you're on top of things.

The absolute worst thing you can do is avoid talking to the client — no matter how upset they may be and no matter how painful the discussion.

Keeping in regular communication with the client will go a long way toward allaying their fears. **FP**

ADOBE STOCK

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

Our client made her wishes known, but her partner was torn with pain and angst in honoring them.

In Times of Tragedy

When doctors and lawyers can't, advisors are uniquely poised to help clients' families with end-of-life planning needs.

By Carolyn McClanahan

Managing investments is easy. Taking care of clients in their most acute time of need is hard. A recent tragedy concerning a client vividly brought home this reality.

The call came on a Wednesday morning. A client visiting her sister out of state had become acutely ill and uncommunicative. She was rushed to the emergency room. Her partner, scrambling to get a flight to be with her, called us to let us know what happened.

By the evening, our client was in the intensive care unit, still uncommunicative. Her condition worsened quickly.

Her partner arrived and it was determined our client would need to be placed on a ventilator or she would die. At this point, the hospital asked for documentation showing that our client's partner was indeed the health care surrogate.

All of our clients have an electronic vault containing their important documents. The problem? The client's partner couldn't remember how to get in the vault. She texted us and asked us to fax the living will and health care surrogate document to the hospital and we promptly obliged.

Our client, a delightful spitfire, had suffered serious health issues in the last three years. Although she was still enjoying life, she was losing her verve. In our last conversation about advance directives, she made it perfectly clear that if she had a serious health event that was going to kill her, she wanted to be kept comfortable and have as peaceful a death as possible. Her partner participated in these meetings and agreed to support her wishes. The client also shared her wishes with her entire family.

The doctors determined our client had pneumonia that had spread to her bloodstream. Pneumonia in people with chronic conditions can cause death very quickly. The next day, our client's kidneys were failing. She would need dialysis, but even with dialysis her prognosis was grim.

Our client's partner called. She knew what our client's choice would have been — not to start dialysis and remove the ventilator. She was ready to carry out those wishes. One of the hardest decisions a person ever has to make is to discontinue life support for anyone, much less the love of your life. She was going to honor her partner but she was torn with pain and angst.

I gently reminded her of our advance directive conversations through the years. We talked about how mad our client would be at us both if she did not follow through and make the hard choice to end life support.

Rehashing those conversations helped give the partner the peace of mind she needed to make the decision. Our client died peacefully with her family by her side.

Attorneys complete living wills and health care surrogate documents but

FOTOLIA

they don't always make the time for education about how to actually prepare for a serious health event.

Advisors can take this advance directive planning a step further by helping the client document their desired quality of life in the event they can no longer speak for themselves due to a health condition.

Advance directive planning involves much more than having a living will and health care surrogate.

Most people consider four abilities essential to a life worth living: the ability to communicate, eat, groom themselves and have meaningful interaction with others.

Memorializing these choices can be a godsend in the time of need. Documenting a desired quality of life is not a medical conversation so being a doctor or health care professional is not required. This conversation fits in perfectly with the estate planning discussion.

As my client's story shows, people need someone to initiate the discussion, get the documents in place, codify the quality-of-life discussion, know where the documents are located and provide access when required. This is not something doctors or attorneys do.

Should all these tasks be the client's responsibility? They could be, but even the smartest and most organized person loses perspective and control when their loved one is dying in front of them. They need help and the best advisors step up in this time of need.

Thoughtful and well-documented advance directive conversations can alleviate the stress of painful decisions and situations when serious illness occurs. We were able to help ensure that our client had her wishes followed and did not end up debilitated and unable to care for herself. Her partner and family were cohesive in their decision-making and at peace with the choice to withdraw life support. Financial planners are in the perfect position to facilitate these types of outcomes. It is rewarding work.

The typical advisor provides a financial plan that covers investments and retirement projections. Some take it a step further by reviewing insurance, estate plans and tax issues. Too often, once this initial planning is complete, the advisor rarely revisits the plan in light of the changes in a client's life.

This is where many advisors fall short and clients are tired of paying 1% AUM for nothing more than asset management. They want ongoing comprehensive planning. They want to know that the advisor will step up to solve financial problems, especially during serious life events. **FP**

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

Tips to help clients with advance directives

Create a legally valid advance directive form

- An attorney is not required to create advance directives
- Caringinfo.org has state-specific advance directive forms

Designate health care surrogates

- This is completed in the advance directive form or a separately prepared document
- Designate someone who will faithfully honor your clients' wishes
- Name a backup health care surrogate in case primary surrogate is not available

Document the quality of life that is important for your client

- This is an adjunct document that guides your clients' health care surrogate.
- Most people desire these quality-of-life measures: Communication, enjoyment of food, ability to groom, cognitive awareness for interaction with others

Share legally valid advance directive form and quality of life desires with these people

- Health care surrogates
- Medical providers
- Clients' close family members and anyone who may influence their decision-making process about health care decisions

Source: Carolyn McClanahan

When Boring Is Good Investing

Clients who check their portfolios every 15 minutes — or every 15 days — may not be good candidates for the moderate-growth performance of diversified portfolios.

By Craig L. Israelsen

The key to long-term steady returns can be summed up in one word: Patience. Indeed, clients with a long investing timeline should stick with a broadly diversified portfolio, then rebalance annually to ensure they buy low and sell high. They may complain this is boring — and tough to do during market gyrations — but that's what it takes to generate solid gains over the long haul.

When asset classes get beat up, it's tempting to forget the long-term and react to the current pain. But that usually ends badly. Successful investing isn't necessarily about good timing (though that's nice when it happens). It's more about consistently good behavior.

The accompanying "20-Year Performance" chart shows returns of 12 indexes. Negative returns are in red; the highest return each year in yellow. It's interesting to note that the S&P 500 was the highest performer only once during the past 20 years (in 2015) — despite the fact that it's the most observed and mimicked index in the world.

Real estate and emerging markets have been the best annual performer five times each. Commodities twice and cash, the Rodney Dangerfield of asset classes, was the best only once.

A diversified strategy is illustrated in the far-right column of the table: a portfolio that combines all 12 indexes — equally weighted at 8.33% each and is annually rebalanced.

Several attributes of the 12-index portfolio model quickly stand out. First, it never once had the highest annual return. Guess what? It never will. A diversified portfolio that contains multiple distinct asset classes will never outperform the best-performing single asset class within the portfolio. And, conversely, it will never perform as badly as the worst. Instead, it delivers middle-of-the-road, steady returns. Some may feel that such an approach is simply too boring. For those clients, let the numbers do the talking.

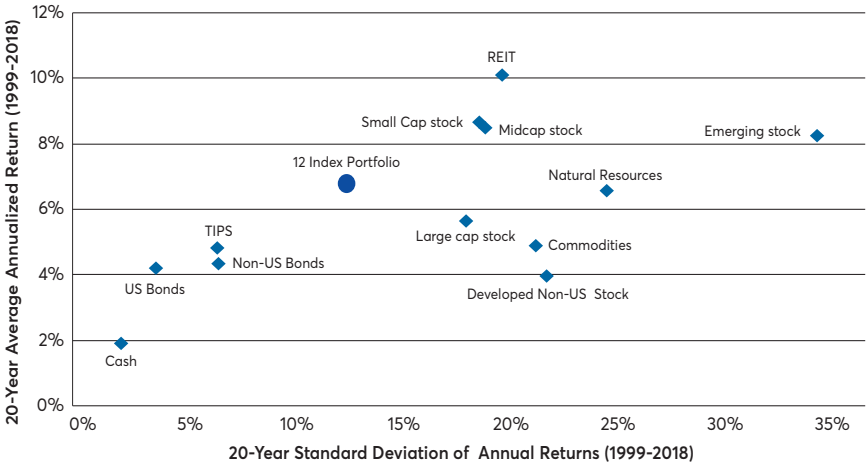
Over the past 20 years, a 12-index portfolio that was annually rebalanced delivered an annualized return of 6.83%. This exceeded the 20-year performance of eight individual indexes: the S&P 500, MSCI EAFE, S&P American Natural Resource, Deutsche Bank Commodity Index, Barclays Aggregate Bond Index, Barclays TIPS Index, Barclays Global Treasury Ex-U.S. Index and U.S. 90-day Treasury Bills.

Moreover, that 6.83% annualized return came with a 12.3% standard deviation. By comparison, the S&P 500 had a 17.5% standard deviation. Thus, the 12-index portfolio had higher returns by 121 basis points compared to the S&P 500 over the past 20 years — and with roughly 30% less volatility. Maybe boring is good.

If you're looking for the standout performers of these 12 indexes, it's clearly been U.S. small-caps, U.S mid-caps, global real estate and emerging markets. They have each had a 20-year annualized return of roughly 9%. But the level of volatility has been considerably higher than the 12-index model. In the case of emerging markets, almost three times higher. Is the extra volatility worth it? That

Risk/Return Tradeoff

In the coveted northwest quadrant (high returns, low risk) are U.S small caps, U.S. midcaps and the 12-index portfolio.



Source: Steele Mutual Fund Expert, calculations by author

20-year performance (1999-2018)

12 indexes and 1 combined model

Year	S&P 500	S&P Midcap 400	S&P 600 Small Cap	MSCI EAFE Index	MSCI EM Index	S&P Global REIT		S&P North American Natural Resources	Deutsche Bank Optimum Yield Diversified Commodity	Barclays U.S. Aggregate Bond	Barclays U.S. TIPS	Barclays Global Treasury ex-U.S.	U.S. Treasury Bills 3 Months	12-Index Portfolio Model (annual rebalancing)
1999	21.04	14.72	12.40	26.96	66.41	-5.00		27.23	37.36	-0.82	2.39	-5.24	4.78	16.85
2000	-9.10	17.51	11.80	-14.17	-30.61	23.53		15.79	18.25	11.63	13.18	1.43	5.98	5.43
2001	-11.89	-0.61	6.54	-21.44	-2.37	13.02		-15.59	-11.09	8.44	7.90	-1.37	3.34	-2.09
2002	-22.10	-14.53	-14.63	-15.94	-6.00	7.88		-12.99	23.55	10.25	16.57	19.59	1.63	-0.56
2003	28.68	35.62	38.79	38.59	56.28	38.96		34.40	25.56	4.10	8.40	14.78	1.03	27.10
2004	10.88	16.48	22.65	20.25	25.95	33.80		24.59	36.38	4.34	8.46	10.33	1.44	17.96
2005	4.91	12.56	7.68	13.54	34.54	10.41		36.61	27.83	2.43	2.84	-6.66	3.25	12.49
2006	15.79	10.32	15.12	26.34	32.55	38.79		16.85	11.47	4.33	0.41	6.44	4.85	15.27
2007	5.49	7.98	-0.30	11.17	39.82	-11.13		34.44	26.83	6.97	11.64	10.57	4.44	12.33
2008	-37.00	-36.23	-31.07	-43.38	-53.18	-45.04		-42.55	-31.89	5.24	-2.35	10.23	1.39	-25.49
2009	26.46	37.38	25.57	31.78	79.02	33.68		37.54	16.16	5.93	11.41	2.63	0.16	25.64
2010	15.06	26.64	26.31	7.75	19.20	23.44		23.88	11.78	6.54	6.31	5.90	0.15	14.41
2011	2.11	-1.73	1.02	-12.14	-18.17	1.70		-7.35	-2.44	7.84	13.56	6.33	0.06	-0.77
2012	16.00	17.88	16.33	17.32	18.63	23.73		2.20	4.06	4.21	6.98	1.83	0.08	10.77
2013	32.39	33.50	41.31	22.78	-2.27	2.81		16.49	-6.58	-2.02	-8.61	-4.30	0.06	10.46
2014	13.69	9.77	5.75	-4.90	-1.82	22.81		-9.77	-26.44	5.97	3.64	-0.79	0.03	1.49
2015	1.38	-2.18	-1.97	-0.81	-14.60	0.59		-24.28	-26.71	0.55	-1.44	-3.29	0.05	-6.06
2016	11.96	20.74	26.56	1.00	11.60	6.90		30.87	19.14	2.65	4.68	1.65	0.32	11.51
2017	21.83	16.24	13.23	25.03	37.75	8.63		1.23	5.18	3.54	3.01	7.29	0.93	11.99
2018	-4.39	-11.08	-8.48	-13.79	-14.25	-4.77		-21.07	-12.91	0.01	-1.26	-0.38	1.94	-7.53
20-Year Annualized Return	**5.62**	**8.97**	**9.31**	**3.52**	**8.85**	**9.19**		**5.65**	**5.14**	**4.55**	**5.21**	**3.63**	**1.78**	**6.83**
20-Year Standard Deviation of Annual Returns %	**17.48**	**18.00**	**17.51**	**21.31**	**33.48**	**20.04**		**23.82**	**21.03**	**3.56**	**6.29**	**6.95**	**1.94**	**12.32**
20-Year Growth of $10,000	**29,845**	**55,766**	**59,350**	**19,980**	**54,491**	**58,061**		**29,995**	**27,246**	**24,346**	**27,589**	**20,413**	**14,226**	**37,509**

Source: Steele Mutual Fund Expert, calculations by author

is the challenging question that every advisor undoubtedly contemplates frequently.

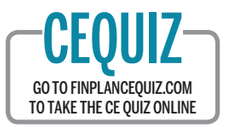
A helpful way to visualize the combination of risk and return is shown in the "Risk/Return Tradeoff" chart. The lower right quadrant of the graph represents low return and high volatility. Over the most recent 20 years, commodities, natural resources, and non-U.S. stock are positioned there (albeit not too deeply in the southeast quadrant). The lower left quadrant represents lower return with lower volatility — which is the normal location for fixed income indexes. Also located there — albeit barely — is the S&P 500.

The upper right quadrant of the graph represents high return and high volatility. The only index that is genuinely in that quadrant is emerging markets. Real estate is also in the upper right quadrant, though barely. Located in the coveted northwest quadrant (higher return, lower risk) is small-cap and mid-cap U.S. stock … and the 12-index portfolio.

A few key observations to remember:

- Clients who check their portfolios every 15 minutes — or every 15 days — may not be good candidates for a diversified portfolio. For those clients who tend to be micromanagers, partition their portfolio into two segments: one segment is a broadly diversified, annually rebalanced model where no micromanagement is permitted. The other composed of stocks or mutual funds and ETFs that the client is allowed (but not encouraged) to micromanage within reasonable guidelines.
- The 12-index model was never the winner in any given year. It never will be. The investor who diversifies needs to be content with hitting singles and doubles: Very seldom will they hit home runs.
- This 12-index model does not favor any index, but rather employs equal weighting among the 12. As such, it is a purely strategic approach and is not attempting to market-time any particular asset class by overweighting it.
- Building a diversified portfolio need not be expensive. Using a variety of ETFs to represent these 12 indexes can result in an actionable portfolio with an annual expense ratio of less than 20 bps.

The verdict: Over the 20-year period from 1999-2018, a diversified 12-index model fared well … for the patient investor. And in the end, patient investors generally do better anyway. **FP**



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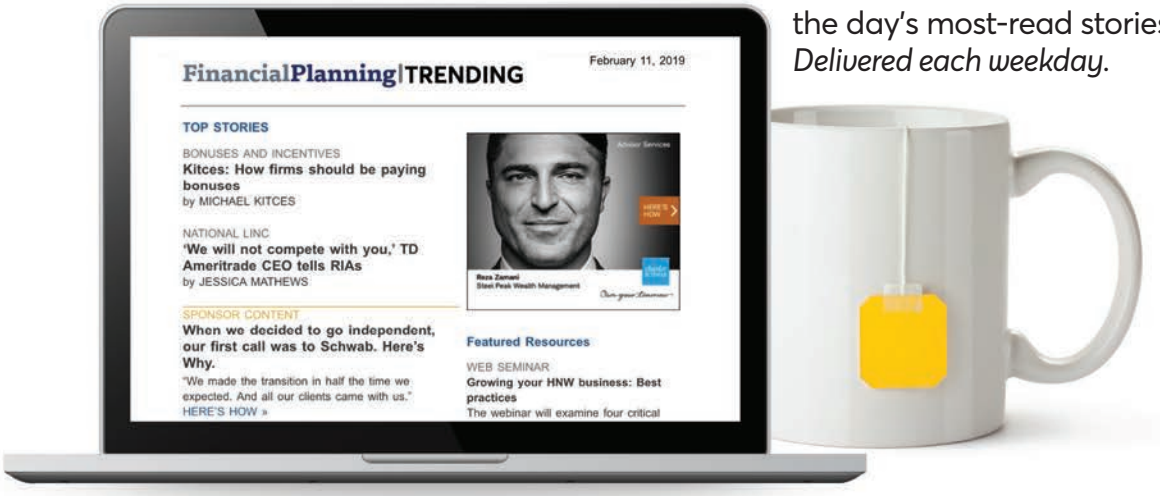

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CE Quiz

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From: When Boring Is Good Investing

1. Over the past 20 years, what was the standard deviation of a 12-index (S&P 500, S&P MidCap 400, S&P SmallCap 600, MSCI EAFE, MSCI EM, S&P Global REIT, S&P North American Natural Resources, Deutsche Bank Optimum Yield Diversified Commodity, Barclays U.S. Aggregate Bond, Barclays U.S. TIPS, Barclays Global Treasury ex U.S. and three-month U.S. Treasury bills) portfolio with a 6.83% annualized return?
1. 6.83%
2. 12.3%
3. 10.4%
4. 14.5%

2. During the same time period, what was the standard deviation of the S&P 500?
1. 17.5%
2. 12.5%
3. 11.2%
4. 6.5%

From: HNW Clients Aren't Immune to Student Loan Debt (online only)

3. What is the average student debt load in the U.S., according to the Census Bureau?
1. $25,836
2. $18,627
3. $32,731
4. $40,235

4. What percentage of medical school students graduate with $192,000 in student loan debt, according to the Association of Medical Colleges?
1. 82%
2. 76%
3. 25%
4. 90%

From: Some Clients Sit Out Best Start in Stocks Since '87 (online only)

5. In January 2019, the S&P 500 increased nearly 8%. What is the most recent year in which the index posted a larger January rally?
1. 2015
2. 1987
3. 2017
4. 1995

From: Top 2025 target dates took a beating (online only)

6. Which of these 2025 target-date funds had the worst return in 2018?
1. Fidelity Freedom 2025 (FFTWX)
2. T Rowe Price Retirement 2025 (TRRHX)
3. Great-West Lifetime 2025 Inv (MXELX)
4. Vanguard Target Retirement 2025 Inv (VTTVX)

7. Which of these funds that had a negative return in 2018 had the best five-year return?
1. JHancock Multi-Index 2025 Presv 1 (JREOX)
2. American Funds 2025 Trgt Date Retire R5 (WFTYX)
3. Wells Fargo Target 2025 R6 (WFTYX)
4. MFS Lifetime 2025 I (LTTIX)

From: Can A Pricey Bar Mitzvah Gift Break FINRA's Compliance Rules? (online only)

8. While there are exceptions for more personal gifts, FINRA Rule 3220 generally bars gifts from advisors to clients in excess of what amount?
1. $150
2. $50
3. $100
4. $200

From: Finding the Tax-Rate Tipping Point for Retirees (online only)

9. Which of these is NOT one of the four effective capital gains brackets in 2019?
1. 0%
2. 18.8%
3. 23.8%
4. 13.2%

10. What is the maximum percentage of Social Security benefits that are taxable as income?
1. 55%
2. 70%
3. 85%
4. 90%

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

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

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Financial Planning

CFP of Another Kind

A planner becomes a certified foster parent and grapples with loss when the child he has fostered is adopted by another family.

By Jesse Coffee

My family and I had a big year in 2018. I left Merrill Lynch, earned my CFP and bought my first home. But the biggest change happened in February, when I became a foster parent.

The idea had only crossed my mind a few months prior when my wife first brought up the idea. We had been watching close friends on their fostering journey with two young girls over the past year. I saw them as a rare breed of selfless individuals — certainly not someone like me, who had never been a parent.

As we met other foster parents in certification classes and support groups and learned more about the process, I realized that foster parents are just normal people who are willing to step outside their comfort zone for the kids. You don't have to be a superhero to change a child's life.

As advisors, we see this mindset all the time with clients. They often look at retirement as an insurmountable goal they'll never fully achieve. We come along and help clients go from being overwhelmed to confident that they can live their dreams.

My wife and I received our first placement call within 24 hours of becoming certified foster parents. There were seven children who needed a home right away. We ended up with a one-month-old baby boy who was born prematurely and had major medical needs.

The baby had been abandoned soon after birth and was in the neonatal intensive care unit. Even looking back, I feel overwhelmed at his situation. The nurses said all he needed was to be held, fed and loved. In short, he needed a family. My wife and I looked at each other and said: "We can do that."

We fell in love with the baby instantly and took him home after he spent another two weeks in the NICU. The next two and a half months flew by.

We had tears in our eyes on May 2, 2018, when we had to say goodbye as he moved to an adoptive family. Coincidentally, two days later my business partner and I resigned from Merrill Lynch to form Sanders Coffee Group, part of True Private Wealth Advisors.

On May 11, still heartbroken and in the middle of moving clients to the new firm, my wife and I received our second placement.

We went into it this time with eyes wide open. We were still grieving, but we were able to see benefits that even a short amount of time can have on a child's development. We started to make peace with the temporality of the process. That's what gave us the strength to keep going.

The nurses told us that all he needed was to be held, fed and loved. In short, all he needed was a family.

I've seen similar emotional evolution with clients as they start to reap the results of financial changes they've made. When it starts to pay off, it empowers them to make small sacrifices now, for big reward later.

We have had our second baby boy for seven months. Seeing him bond, develop and thrive brings us so much joy. However, we are overcome when we think about the day when he will move on from us.

As advisors we spend most of our time planning for the future. We plan for our client's futures, our firm's future and our own future. Being a foster parent has taught me that you have to live in the present. **FP**

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

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Without sales charges	1-year	3-year	5-year	10-year	Exp. Ratio Gross (%)	Exp. Ratio Net (%)
Class Inst*	0.74	2.95	5.06	6.01	0.57	0.56
Class A	0.49	2.70	4.80	5.82	0.82	0.81
With sales charge						
Class A (4.75% max. sales charge)	-2.62	1.63	4.15	5.51	0.82	0.81

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