May 2018
Financial Planning
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Financial Planning

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"It was so inappropriate, and I couldn't say anything because these were all clients."

"'Everyone is a member of the team and should be treated well.' I've never heard that message."

"I've been told, 'Wow, you've got your [lipstick] on today.'"

"I was so scared."

"I ended up making an excuse that I needed to get coffee, and I ran back to my hotel room."

"I think they don't see it because it doesn't happen to them."

"I'm the only woman, and I walk in and this [client] says, 'Wow, it's nice to have an attractive woman here for a change.'"

"Culture starts at the top."

"I think that's why you see so many women launch their own firms. They decide they're tired of the bullshit."

SourceMedia

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 Pull of the Bull

How to manage clients during the long-running market boom.

The current bull market has been running for nine years now, and advisors have to manage clients who are afraid of missing out on profits. The Brighthouse Financial Insights Panel looks at why the market is so strong and discusses strategies to get clients to stick to a plan – now and when a bear market finally does arrive.

Their insights focus on three key areas:

- What makes the current bull market unusual.
- How to manage client expectations.
- How to help clients avoid common mistakes.

The “sluggish” economy

“The current bull market is not just unusual because it’s been running for so long,” says Michelle Connolly, professor of the practice of economics at Duke University.

Typically, a booming market and a booming economy go hand in hand. However, Connolly believes that one of the underlying causes of the long bull market may be the “sluggish” performance of the U.S. economy since 2008.

But if there’s no boom, then why is there a bull market? Connolly believes this is actually due to the extended period of very low interest rates since 2009.

“That is unusual, the economy is not offering high returns to bonds or other types of investments, and it’s all being funneled in the direction of the stock market,” says Connolly.

How long will it last?

Interest rates are still low. But since no bull market has ever lasted more than 10 years, some commentators predict we are overdue for a crash.

Jay Mooreland, client behavioral coach and author of “The Emotional Investor,” disagrees: “Bull markets don’t just die of old age. We’re still writing the history of the stock market, and we only have about 100 years of data. We could go several more years, or it could just be a few more days until things turn over.”

He believes advisors should avoid trying to time the market and instead focus on creating plans that manage the known potential risks to their clients’ portfolios.

Managing expectations

One of the issues with a well-diversified portfolio is that it will underperform the market. When the market is bullish for as long as this one has been, it can create tensions with clients who are tempted to abandon their plans to chase profits.

Mooreland recommends three ways to manage clients in this situation:

1. Pre-empt the conversation: make sure your clients understand from the beginning that their plan is in the service of long-term goals, not short-term gains.
2. Redirect clients’ energies to optimizing things they can control: the strategy, the plan, and their own behavior.
3. Ensure that clients have security of income: this should be built into their plan.

Avoiding common mistakes

When the bull market finally does end, how can advisors help clients avoid decisions that compromise their retirement?

“Most of the mistakes clients make really aren’t their fault,” explains Mooreland. “They’re caused by natural biases, such as the ‘availability bias,’ our tendency to over-prioritize the information that is most available to us.”

“An investor may believe wholeheartedly in their financial plan, but when they hear the financial media spew off stories about how bad things are getting and see forecasts being slashed, they will give heavier weight to that new information than to their financial plan.”

Plan ahead

Advisors can mitigate the influence of biases by setting up a pre-commitment plan. This commits clients in advance to making certain adjustments to their portfolios based on market outcomes.

“By doing this up front, you’re doing it when the client is in a rational state of mind,” says Mooreland.

Learn the key features of a pre-commitment plan and discover other insights from our leading experts by visiting brighthousefinancialpro.com/insightspanel

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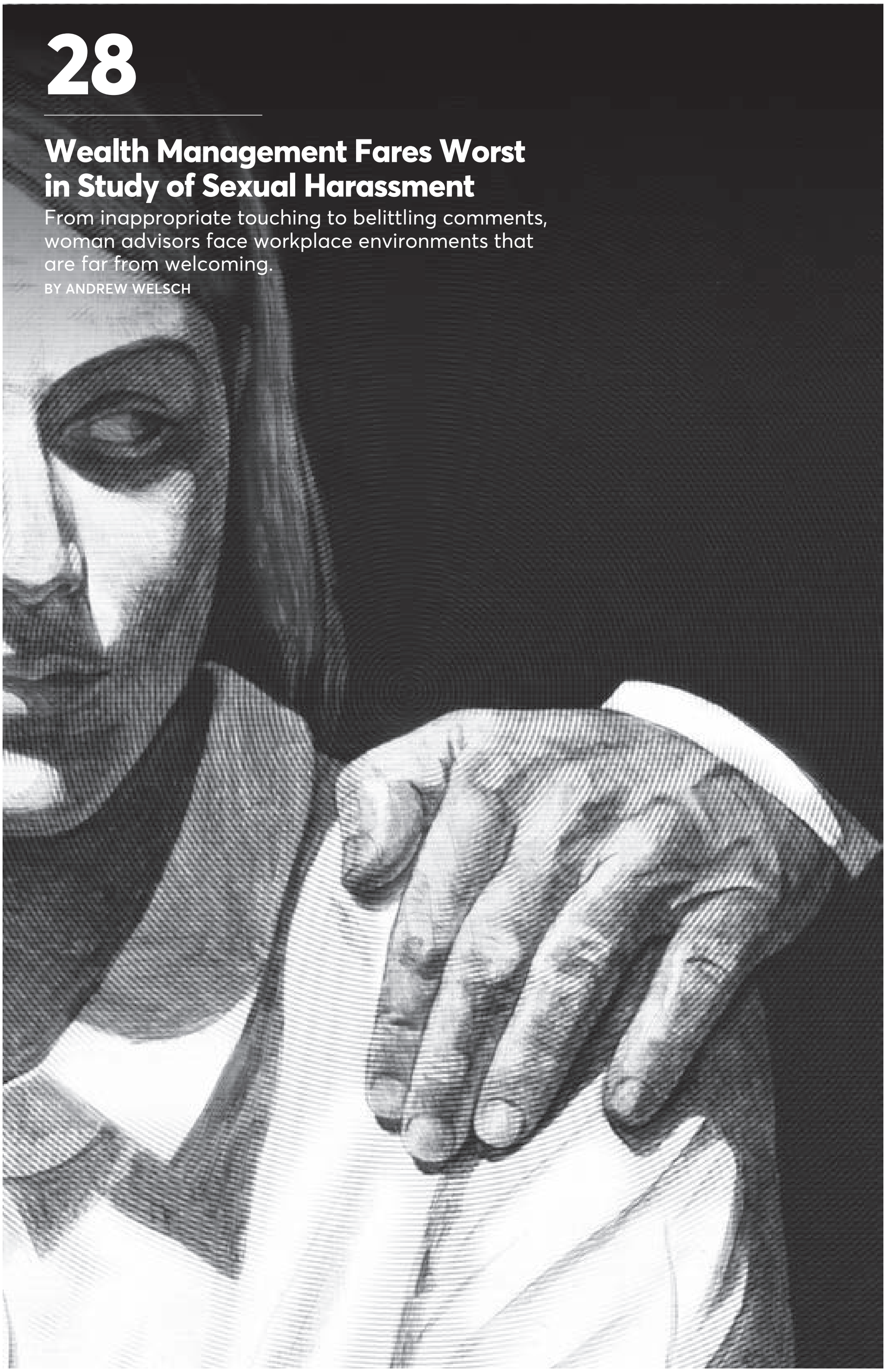

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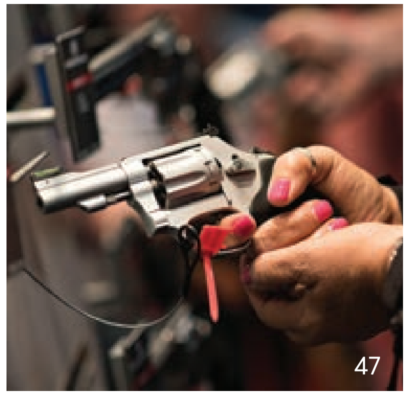

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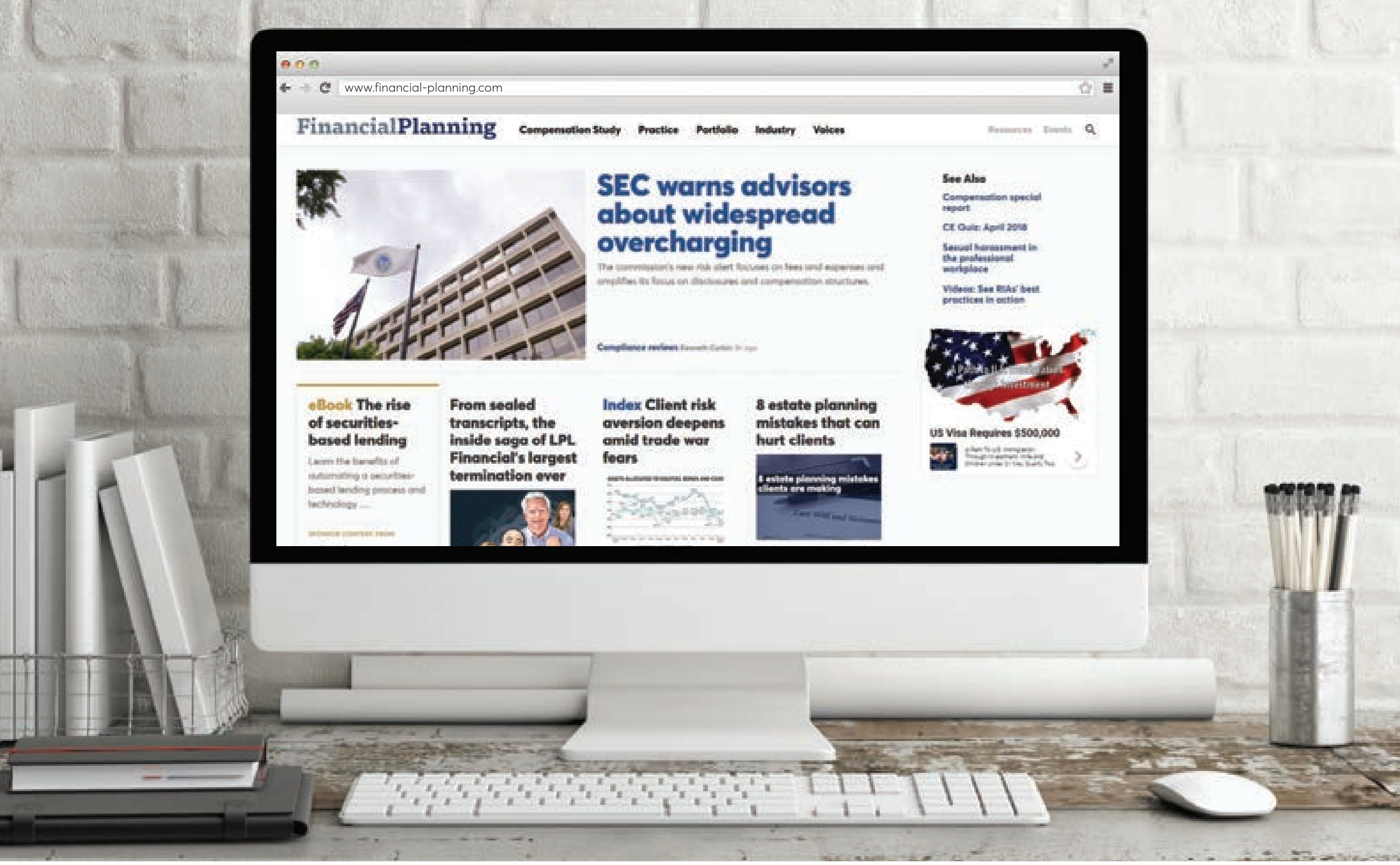
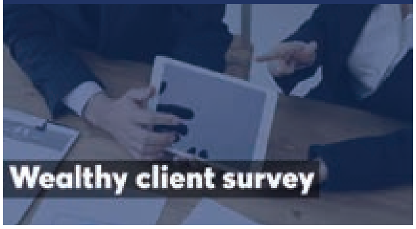


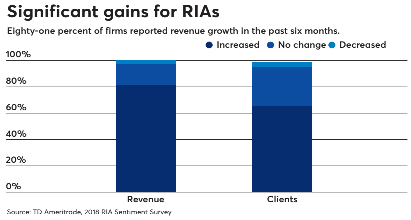
HNW CLIENTS ON THE RISE



Growing Pool of HNW Prospects

The number of wealthy households in the U.S. has reached record highs across the mass-affluent, high-net-worth and ultrahigh-net-worth segments, according to a report by Spectrem Group. Learn more about the growing segment of wealthy clients at https://bit.ly/2HpD7Bm

GUIDE TO GROWTH



Golden Age

The demise of the solo advisor has been forecast for nearly two decades, yet one-person shops have actually become more profitable than ever. Read more about a possible golden age for RIAs at https://bit.ly/2uuHfNE

EVENTS

June 6-8
Pershing Insite
Orlando, Florida
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June 11-13
Morningstar Investment Conference
Chicago
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June 21-22
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Editor's View

#MeToo Meets Advisory Industry

Planning professionals tell us sexual harassment is pervasive. Can that change?

Ask any woman in wealth management if she's witnessed or experienced sexual harassment. Chances are, she has a story to tell.

Earlier this year, I worked with two colleagues to conduct a survey on sexual harassment across a broad swath of industries. The response was overwhelming. More than 3,000 independent planners, wirehouse advisors, bankers, accountants, insurance brokers and other professions completed the survey. Thousands commented on their experiences, beliefs, worries and anger about unwanted sexual behavior in their industries.

"I didn't expect so many people to have a story — to have something to say about harassment," says Dana Jackson, vice president of research at SourceMedia, who worked with me and Bonnie McGeer, executive editor of *American Banker*, on studying the results. (SourceMedia is the owner of *Financial Planning*, *American Banker* and many other business publications.) "Both men and women were candid and emotional in their responses — they weren't just checking off boxes," Jackson adds.

In reporting our main story, "Why is sexual harassment still a problem in wealth management?" *Financial Planning* Senior Editor Andrew Welsch finds many women are frustrated and demoralized.

"The survey data clearly supports that women in wealth management think more needs to be done," Welsch tells me. "They want better sensitivity training and a firmer commitment by upper management." He adds that the profession needs to do more to welcome women into the profession. "For example, think of how many CEOs of major wealth management firms are women," he says. "Not many."

Overall, this is part of a broader conversation Americans are having about sexual misconduct in the workplace, politics and elsewhere. "I don't know where it will end," Welsch says, "but women are leading the discussion." **—Chelsea Emery**

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Retirement Advisor Confidence Index

Client Risk Aversion Deepens

Clients boost retirement contributions, but risk pullback weighs on business conditions for wealth managers.

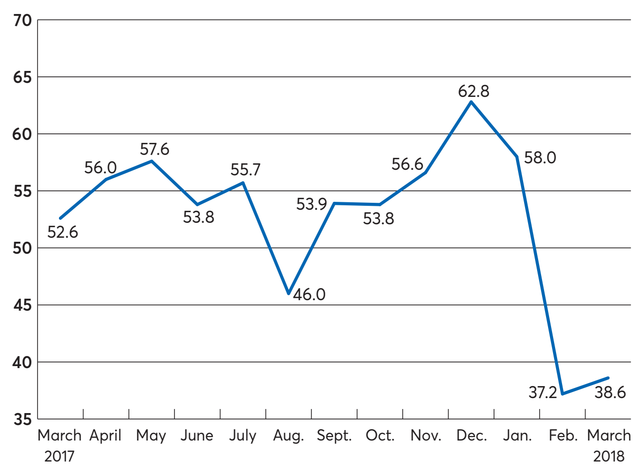
By Harry Terris

Escalating trade tensions, "chaos" in the White House and seesawing stock markets are deeply unsettling investors, advisors say. Clients' appetite for risk has deteriorated further, according to the latest Retirement Advisor Confidence Index – *Financial Planning's* monthly barometer of business conditions for wealth managers.

At 38.6, the component tracking risk tolerance registered one of its lowest readings since the index's start in 2012 and remained deep in contraction territory, extending a retrenchment that began in February. Readings above 50 indicate an increase, while readings below 50 indicate a decline.

Many advisors say clients have grown sensitive to ongoing volatility in equity prices. They also say clients are particularly unnerved by President Trump's tariffs and the White House's threats to take even more aggressive actions in that

CLIENT RISK TOLERANCE



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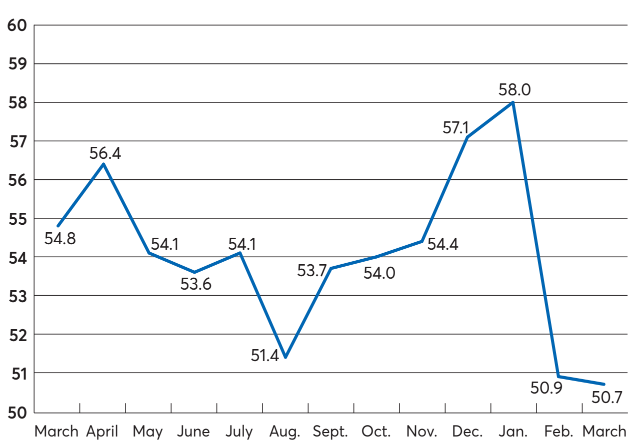
RETIREMENT ADVISOR CONFIDENCE INDEX



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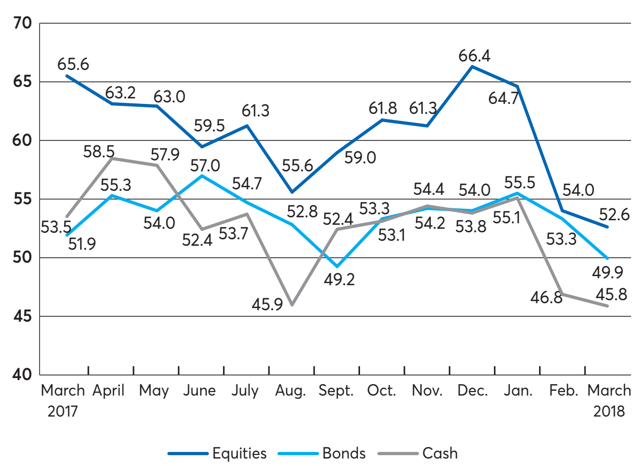
ASSETS ALLOCATED TO EQUITIES, BONDS AND CASH



Source: SourceMedia Research

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.

realm. Fears about the impact of a trade war are accompanied by broader concerns about Trump's impulsive approach to governing, according to some advisors, one of whom describes it as a "chaos management style."

Weighed down by the risk component, the composite RACI barely kept above water at 50.7, a drop of 0.2 points. The composite tracks asset allocation, investment product selection and sales, client risk tolerance and tax liability, new retirement plan enrollees and planning fees.

Some advisors say rattled investors are reallocating to cash and fixed-income investments. One advisor highlights the impact on retirement planning, saying clients are "rolling over 401(k) plans to annuities or traditional IRAs with bonds because of the market volatility."

Other advisors say many clients are taking renewed stock market volatility in stride, however, by buying on the dips, eschewing macro wagers and sticking to long-term strategies. Overall, the RACI component tracking the amount of client assets used to buy equities fell 1.4 points to 52.6, and the component measuring flows into cash slipped 1 point to 45.8. The component measuring allocations to bonds dipped 3.4 points to 49.9.

Notwithstanding market and policy turmoil, advisors say flows into equities have been sustained in part by clients' abiding focus on saving for retirement. In fact, the RACI component tracking the dollar amount of contributions to retirement plans jumped 5.2 points to 62.7 as clients boosted tax-protected accounts before the April deadlines.

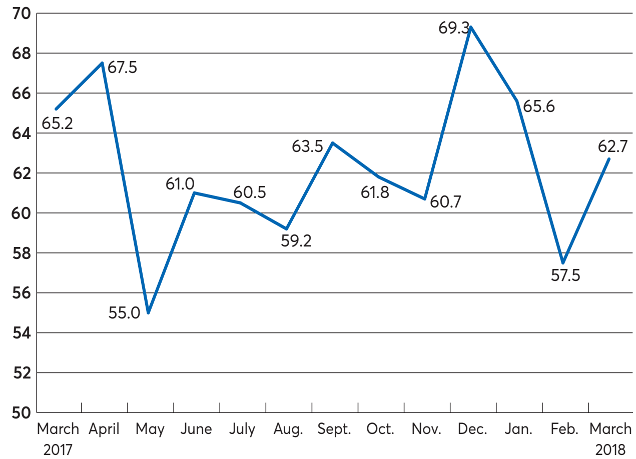
The latest RACI, which is based on advisors' assessment of conditions in March relative to February, is accompanied by the quarterly Retirement Readiness Index. RRI tracks advisors' evaluations of their clients' income replacement ability, likely dependence on Social Security and exposure to big economic shifts.

The number of advisors who say mass-affluent clients would be extremely vulnerable to a significant decline in equity prices improved slightly to about 18%. Roughly 35% of advisors say a significant increase in health care costs would be extremely damaging to mass-affluent clients' retirement security, also a small improvement.

In another assessment of clients' retirement preparations, advisors say they believe that about 62% of mass-affluent clients will be able to replace their income for 30 years by the time they retire, compared with 77% of high-net-worth clients and 80% of ultrahigh-net-worth clients. **FP**

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

CONTRIBUTIONS TO RETIREMENT PLANS



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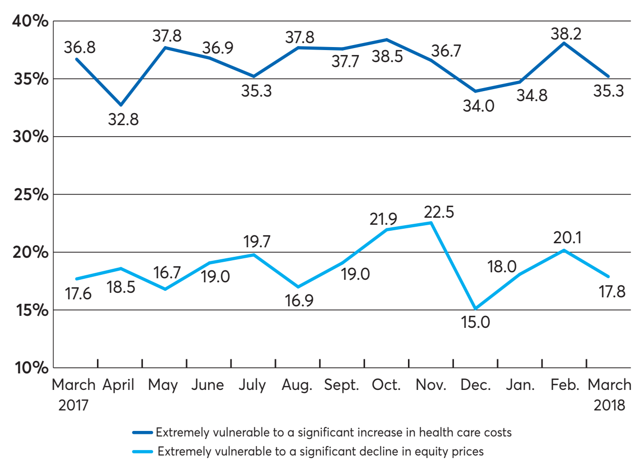
MASS-AFFLUENT RETIREMENT READINESS



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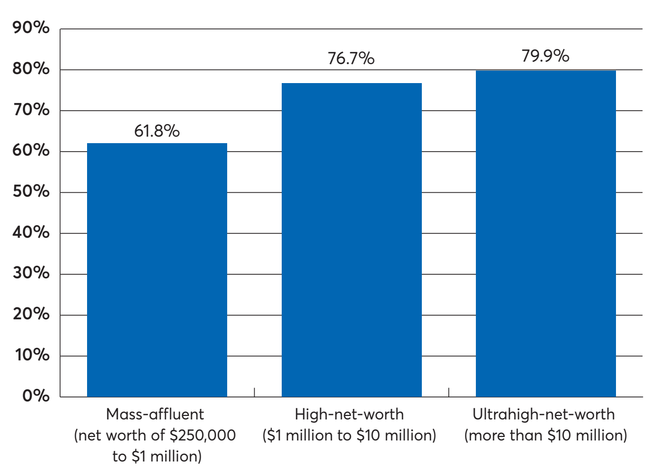

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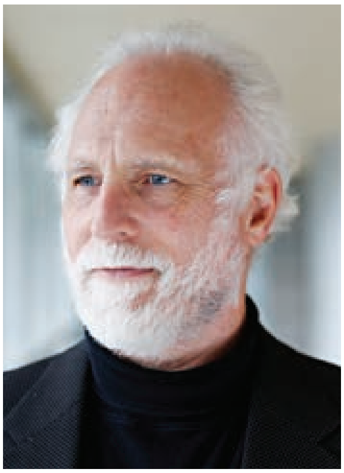


A New Way to Live

Instead of thinking about being a fiduciary as an obligation or regulation, advisors should envision it as a new lifestyle.

By Bob Veres

As you read this, the SEC is going through yet another review of a common standard of care that would apply to all providers of financial advice.

The wise money says the commission will give us something closer to a suitability standard, although they'll no doubt try to make it seem like a fiduciary standard. The lobbying muscle of the brokerage firms, plus the independent broker-dealers represented by the Financial Services Institute, are likely to convince regulatory policymakers that it's important to preserve so-called choice in the financial marketplace.

Let us be clear. In this context, the word "choice," like the word "fiduciary," is shorthand for a fairly complicated concept. When brokerage lobbyists use the term, they're saying a consumer should have the choice to get advice not only from professionals who are pledged to give recommendations and analysis in the client's best interests, but also from reps and salespeople posing as objective parties. Many of the latter will be hiding a sales agenda in which they recommend high-commission or high-fee investment options.

Clarifying Roles

"Choice" is a clever word choice, because it obscures the core issue, which is client confusion over which advisors can be trusted, and to what degree. Real choice, of course, can be achieved only when roles and obligations are clarified enough that clients can clearly understand what they're choosing in an advisor. Studies, including the SEC's own RAND study, have shown this degree of clarity exists only in a parallel universe.

Because regulators including the SEC and the Department of Labor are involved, we tend to think of the fiduciary concept only in regulatory terms. But I think most of us intuitively realize that the fiduciary concept is actually a formula for what we want in every aspect of our lives. We select friends who will tell us what we need to hear, not what we want to hear, and who would do anything for us and know that we would do the same for them.

Any person or company attempting to argue it should be held to a lesser standard should be regarded with intense suspicion.

In business, we tend to avoid companies that have visibly breached ethical boundaries — companies including Wells Fargo and (to take less recent examples) representatives like Fabulous Fab who repackaged junk loans and sold them at a premium until they nearly destroyed our global financial system.

Consumers are developing a fine instinct for recognizing who is and who is not on their side. Over the years, lay investors have given increasing market share to fee-compensated advisory firms, despite millions of advertising dollars spent by the dwindling brokerage community.

Signs of mistrust crop up even where there are existing brokerage relationships. The surest way to know an article is directed toward sales agents is when it discusses how to find out if clients are hiding assets from them, or the best formula for overcoming objections to their advice. These are not issues that keep NAPFA members up at night.

Although it is seldom articulated as such, we try to hold our elected officials to similar standards. When a member of Congress puts his or her own interests ahead of the country's, we call it corruption.

Establishing a Supportive Bond

The point that I wish the SEC staff would understand is that any meaningful fiduciary debate is not about choice at all. "Fiduciary" is a shorthand term for good business practices that build a mutually supportive bond between a service provider and the public. And more than that, it defines what we all look for from the people to whom we give our trust.

Any person, company or representative organization attempting to argue it should be held to a lesser standard should be regarded with intense suspicion. Sure, it's probably less profitable, in the short term, to recommend a portfolio of low-cost ETFs rather than one made up of expensive nontraded REITs, or a tricky wrap account with a hidden fee-sharing arrangement.

But fee-compensated planning firms are managing to take home very reasonable profits despite the hindrance of making recommendations that will actually benefit their clients. I would argue that fee-compensated advisors are also far less likely to require close regulatory supervision, because they've voluntarily given up the temptation to recommend shoddy products simply because someone is willing to pay them a fat commission.

The SEC is still working on a proposal for a common standard of conduct for brokers and advisors.

Truly ethical firms that want to build their businesses on a foundation of trust will embrace fiduciary principles as their most important core business practice. By taking the high road, they are acting in their own best interests as well; they are far less likely to suffer reputational risk, scandal and diminishing market share. If Wells Fargo had embraced fiduciary as a core ethical principle, the firm (and its customers) would be in a different position today.

Envision Something Bigger

Instead of thinking about the term fiduciary purely as an obligation or regulation, I invite all of us — regulators, the public and all members of the financial community — to envision it as something much bigger: a way of life.

Picture a fiduciary society, where we take seriously an obligation to look out for the interests of everyone we live and work with. Wouldn't that be a better world than the one we live in today?

I invite the SEC to recognize that some firms have been living that ideal and thriving. If you want to give choice to consumers, make it clear who is and is not willing to live up to the principles of a fiduciary rule.

Do this by forcing reps and sales agents to identify themselves as non-fiduciaries who have made the choice not to put the best interests of their customers ahead of their own and their employers.

In the land of the free, advisors can opt out of a fiduciary strategy and avoid SEC registration. But let the people choose whether that's what they prefer when all the cards are face up on the table.

If we were all given that clarity in all aspects of our lives, personal as well as business relationships, I think we'd make better choices about who to trust, who to befriend, who to vote for. If we all embraced the concept as a core personal value, business or otherwise, there would be more trust and harmony in our troubled world.

The SEC can get us started. **FP**

BLOOMBERG NEWS

***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.*

Legacy Building

Many clients want to leave an impact after they're gone but don't know how to go about it. Here's how advisors can help.

By Dave Grant

Assisting clients in leaving a legacy is one of the more difficult and nuanced challenges facing a financial planner.

With many retirees having accumulated significant wealth through their workplace retirement programs as well as real estate, there are more families passing on wealth to their heirs. Where historically most retirement income was generated through pensions and disappeared at death, 401(k) and IRA retirement plans have the capability of securing wealth for generations to come.

Sometimes married couples aren't on the same page; sometimes a single client has no family but still wants to leave a positive impact; and some clients simply don't know what they want to do. Rest assured, you can help in each case.

For instance, in one case, at the end of an on-boarding meeting with a married couple who had just become clients, I assigned George Kinder's three questions as their homework.

Kinder is the founder of the Kinder Institute of Life Planning, which trains advisors in this approach, and author of the book "The Seven Stages of Money Maturity."

The Three Questions

If you're unfamiliar with his work, here are his three questions: 1) Imagine you have enough money to take care of your needs, now and in the future. How would you live your life? Would you change anything? 2) Imagine your doctor says you have only five to 10 years to live. You won't feel sick, but you'll never know when death will come. What will you do? Will you change your life? How? 3) Finally, imagine that your doctor says you have only one day left to live. Ask yourself: What did I miss? What did I not get to be or do?

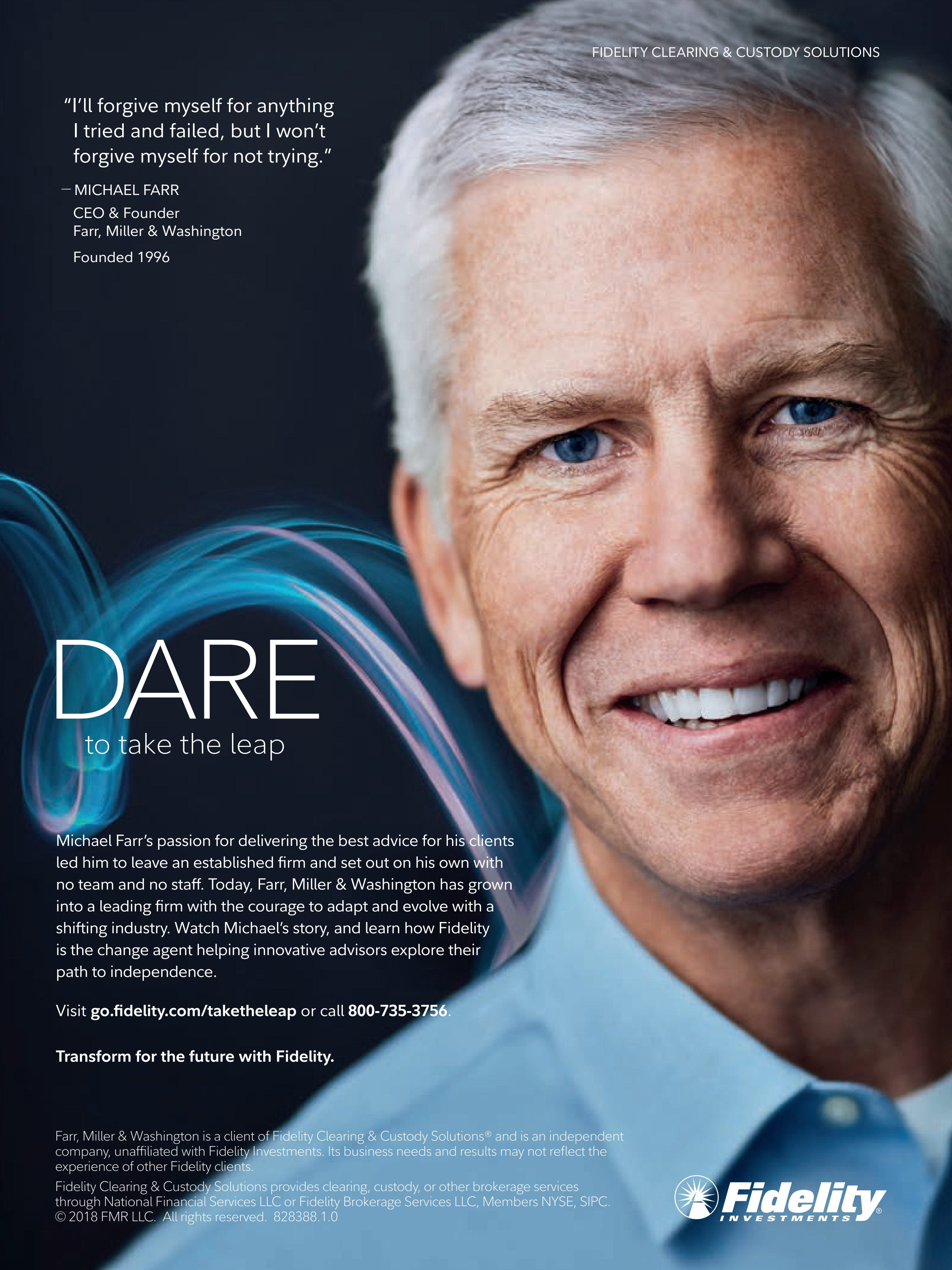
Most of the time, Kinder's questions get clients thinking about how fragile life is and what they have yet to accomplish. These topics for contemplation help them uncover what they value in life. In this case, confronting the questions produced an answer that surprised not only me but also the couple themselves.

When it comes to clients who avoid addressing their own mortality, we should acknowledge that we are not trained to take someone through this process.

These particular new clients were a baby boomer couple nearing retirement. This was the second marriage for each, and each had two children from the first marriage. The husband had come into the marriage with more assets than his new wife, but they then built a life together as equals. They had been using another advisor but had some misgivings about the advice, cost of services and depth of the retirement analysis.

At our next meeting, the wife gave her answers and had obviously put a lot of thought into them. She knew what she valued and was starting to plan her retirement around those things.

The husband then stunned her with one of his answers: "If I had five to 10 years to live, I would want to buy [your daughter] a house," he said. "My children are capable of looking after themselves, but [your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daughter] works in an underpaid profession. She deserves to be taken care of."

The look on his wife's face was priceless. It was obvious she did not expect him to take care of her extended family before his own.

As we continued working on their plan, it became obvious this goal could become a reality, and their plan started to take on a deeper meaning for both of them. Clearly, this shared goal would greatly impact their financial legacy and bring them closer together as a couple.

I have to admit that I'm sometimes so caught up in my role as an expert that I am overly eager to come up with answers to clients' problems instead of facilitating their own discussion. Like people going through therapy, clients often have the answers to their own problems — they just need the time and space to work them out.

As I reviewed this couple's estate planning documents, I stopped myself from explaining why buying the daughter a house might be in conflict with the existing overall goals of their financial plan. Instead, I asked them if the documents still met their wishes or if they thought they should be adjusted.

Like people going through therapy, clients often have the answers to their problems — they just need the time and space to work them out.

As the couple discussed this, it became apparent that their estate was not designed to match their recently uncovered values, and even the way their investment accounts and real estate were currently structured might need adjusting.

We explored how moving assets between various titling structures would affect how much each of their heirs would receive and which approach best achieved their new plan.

With minimal direction from me, this couple put together a draft of their estate plan to extend their legacy as they desired.

Many of my clients are single women — some divorced, others never married and some who don't have any immediate family. When we discuss their legacy, it can become an uncomfortable conversation. For those whose closest loved ones have died, it reminds them of what used to be. For those with no immediate family, it provides a reminder of their loneliness.

While seeing the pained emotions of our clients can be troubling, these conversations are crucial.

It brings a smile to my face when news stories arise about quiet, and seemingly lonely, individuals who leave millions to charity at their passing. While they may not have had many people in their life, they were intentional in identifying who would benefit from their finances when they were gone.

It's my goal to encourage my single clients with few family members to push through their discomfort to determine whom they will impact when they die.

In my career to date, it has been rare to find a situation where someone has no idea what they want their legacy to look like. But I do have one client who is stumped, and it's causing a roadblock in her estate planning. When I ask her what she wants to happen should she have money left over at her death, it's met with, "I don't know."

This seems to be a case of not knowing what values and causes are true and valid, and, in turn, not being able to verbalize an answer because there isn't one. I'll admit this discussion made me uncomfortable at first. After further discovery questions, there were still not any clear answers. The meeting ended with the topic of legacy planning being left on the table. And it's OK.

Working Through Challenges

For some clients, addressing their mortality isn't something they can process easily. And we as advisors aren't trained to take someone through this particular process. It's the job of a therapist to help someone understand why they are having trouble accepting their mortality, and what should happen when they die.

As I left that meeting, I encouraged my client to keep thinking about these issues and explore different ideas about what her legacy might be.

My hope is that she'll be able to write a legacy story of which she's proud and that she can put in place before it's too late. But if she's still having trouble at our next meeting, I'll recommend she talk it through with someone more qualified than I.

At the end of the day, everyone deserves to be the writer of his or her own legacy story. **FP**

Dave Grant, *a* Financial Planning *columnist, is founder of the planning firm Retirement Matters in Cary, Illinois. He is also the founder of NAPFA Genesis, a networking group for young fee-only planners. Follow him on Twitter at @davegrant82.*

It's Time to Future-Proof

Fortune 500 companies disappear because they don't plan properly for the future. Don't think it can't happen to your firm.

By Kimberly Foss

They were companies that everybody knew: American Motors, Brown Shoe, Studebaker, Collins Radio, Zenith Electronics, National Sugar Refining. And many more. They were the envy of the corporate world: successful, profitable and firmly established. They were Fortune 500 firms. What do the industrial giants listed above all have in common?

None of them are in business today.

What happened? How can 88% of the nation's leading companies practically disappear from the business landscape?

They went away because they failed to innovate. They failed to listen to the up-and-coming voices. They failed to future-proof.

Why is this relevant to the financial advising industry? Seventy-two percent of practitioners in our industry are age 40 or older, according to the most recent figures from the CFP Board. Nearly 48% of us are 50 or older. Meanwhile, millennials are set to acquire around $30 trillion in assets from their baby boomer parents, who currently control about 80% of the nation's wealth, according to AARP statistics.

Recruit and Mentor

How many of those 40-, 50- and 60-year-old advisors are going to be around to counsel the clients who are putting their new wealth toward expanding businesses, educating children, pursuing philanthropic goals, planning for retirement and developing strategies for transferring their assets to future generations?

Clearly, those of us who want to position our firms for lasting success must recruit, mentor and properly compensate the millennial advisors who will power the future of our industry. So how do we attract and retain the advisors who will rise to become our eventual leaders?

Hartford Funds in 2016 held a roundtable of younger advisors to learn their opinions on how firms can adapt and remain relevant. Not surprisingly, the topics of mentoring and providing clearly defined career paths received frequent mention by participants.

For young advisors, a major challenge is one faced by everyone who has ever entered the business at a young age: establishing credibility with clients old enough to be their parents or even their grandparents.

To remain competitive with entry-level positions in other financial careers, advisory firms may need to build in a significant salary component for young advisors while providing a clearly defined incentive plan that encourages appropriate career progression.

Many firms are addressing this by pairing younger advisors with more seasoned practitioners. This partnership can provide younger advisors the opportunity to get face time with clients and also absorb the older advisor's methods, business philosophy and perspective.

In turn, the senior advisor gains access to the younger advisor's technological savvy — typically a strong suit for younger, digital-native millennials just entering the profession.

A 2013 Ernst & Young

report notes our industry's long-standing weakness in providing clear-cut job descriptions, especially for advisors just starting out.

In response, some firms have started to design special residency programs to provide aspiring advisors a logical step between internships — which, at many firms, can embrace a range of duties from getting coffee to running analytic reports — and full-charge responsibility for client accounts and business development. The hands-on experience typically turns these young advisors into highly sought-after candidates for positions with greater responsibility.

Advisors must recruit and mentor millennials who will power the future of the financial advising industry.

Firms that wish to attract next-generation advisors may need to consider methods that make effective use of fee-based compensation structures.

Next-generation advisors clearly indicate the value they place on transparent compensation structures. At the same time, they tend to perceive a stigma associated with sales, and generally prefer to avoid the type of transaction-driven business many older advisors cut their teeth on.

For this reason, the fee-based model enjoys broad acceptance among younger advisors. This model also acords well with their avowed focus on client interests and outcomes. Accordingly, firms that wish to attract and retain top-performing next-gen advisors may need to consider methods that make effective use of fee-based compensation structures.

To remain competitive with entry-level positions in other financial careers, advisory firms may also need to build in a significant salary component for young advisors while providing a clearly defined incentive plan that encourages appropriate career progression.

'Rising Commodization'

Financial Planning contributing writer Michael Kitces suggested recently that our industry may be reaching a critical point in terms of the amount of advisory talent available in comparison with the expanding client population.

Kitces also makes some important points about the need for advisory firms to differentiate themselves in the face of what he terms the "rising commoditization" of financial advisory services. Firms must account for the growing importance of robo-advising and other technological innovations that will continue to alter the ways in which advisors interact with clients.

Given the ongoing evolution of our business models, doesn't it make sense to invest now in those who are best-positioned to take us into whatever brave new world we face?

Millennial advisors have grown up in a world of accelerating technological change. But they also bring to the table a solid emphasis on relationships, a yen for wearing different hats as needed, a strong team mentality, and a propensity to embrace a well-defined mission.

Speaking the Dialect

And let's not forget they aren't only the next generation of advisors; they're also the next generation of investors. If we want to keep our client base in expansion mode, why wouldn't we want to have team members who already speak the dialect?

Younger advisors' interests, values, priorities and loyalties will inevitably shape the wealth management landscape of the future. Now is the time to make them an integral part of our firms. Now is the time to future-proof our industry. **FP**

Kimberly Foss, *CFP, CPWA, is a* Financial Planning *columnist and founder of Empyrion Wealth Management in Roseville, California, and New York City. She's also the author of* Wealthy by Design. *Follow her on Twitter at @KimberlyFossCFP.*

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Becoming a Yes Man

Planners often say no to clients who have unusual investment ideas, but they need to get out of their comfort zones.

By Allan Boomer

Years ago, when I worked as a financial advisor at a major brokerage firm, we learned highly sophisticated ways to analyze clients' investment ideas so we could consistently tell them no.

I recall the time my client wanted to invest in a promising real estate project in his hometown. I sent it to my firm's real estate department for review. I also shared the opportunity with my manager. Ultimately, we wound up pitching the client on investing in the firm's upcoming private real estate fund and passing on the local project.

At the time, I was a young advisor and did not know any better. I really believed the firm's experts had a much higher likelihood of producing a successful real estate project than the local team in the client's backyard.

And then 2008 came. Some of the smartest investors in the world got caught with their pants down. There was carnage in every asset class in the world, which included the private real estate fund I had persuaded the client to choose over the local opportunity. The leverage taken on by the private fund wiped out more than 50% of its net asset value.

And with that, I learned a valuable lesson about investing: No one has a crystal ball — not even the sharpest people. All anyone can do is their best at devising an investment hypothesis and executing it.

Thinking We're Smarter

All investments involve an element of chance and risk. And yet we consistently tell our clients that we are smarter than them — that our ideas are better than theirs.

Financial advisors have a natural incentive to say no to opportunities that remove capital from the portfolios that they are managing.

It's an unspoken conflict of interest that gets very little attention — the more a client removes money from his or her portfolio, the more it reduces compensation to the fee-based advisor.

This is short-term thinking I believe I will ultimately backfire.

What becomes of a one-note relationship where the advisor always says no? It leads clients to distrust our advice overall. It exposes our bias. It tells the client that their opinions don't matter.

We create an intellectual hierarchy where we see ourselves as the smart ones in the relationship.

I don't want every advisor to become a yes man. But we should be more open-minded and not eschew investment ideas simply because they are out of our comfort zones.

Although our clients are the ones who earned the money in the first place, we are silently telling them that they can no longer trust their own instincts.

This message leads them to do things behind our backs, often without the benefit of our wisdom.

When I left the bulge-bracket brokerage firm, I felt as though my blinders had been removed.

I started an RIA in 2012, and decided I wanted to do things differently. I wanted to figure out ways to say yes. Maybe not every time — but certainly more often than in my former life.

My new philosophy was

tested pretty early on. One of my clients had recently retired from a nine-year career in the NFL.

Although he had a phenomenally well-diversified and economically productive portfolio, he soon started sending me an onslaught of investment opportunities that had been coming his way.

Financial advisors have a natural incentive to say no to opportunities that remove capital from the portfolios they are managing. Saying yes produced outstanding results for my client and my business.

His financial plan had been executed flawlessly, but he was a 31-year-old, already set for life as a millionaire. He had nothing but time on his hands.

It became apparent that he was going to invest in a business whether I liked it or not. He wanted to get his hands dirty, and I couldn't stop him.

I tried to be open-minded, but the deals that came across his desk were terrible. In almost every case, he was being asked to put up the bulk of the capital, but would own only a minority equity stake, with no control over the decisions of the business. I needed to find something to which I could comfortably say yes.

Evaluating Opportunities

I decided to help the client evaluate numerous franchising opportunities. Franchising seemed similar to football, where the coach draws up the play and the players go out on the field to execute. My client and I proceeded to crisscross the country, meeting with potential franchisors.

Ultimately, we landed on a fitness concept that seemed like a good fit.

For a client who wanted to invest in a business, I was finally able to say yes to a health club franchise.

We evaluated the management team together. I ran the numbers and helped him negotiate a favorable franchise agreement. I advised him to structure the business entity in a way that gave him a majority equity stake, and the management control he deserved. I built a team of pros around him, from franchise and real estate attorneys to fitness industry experts and commercial real estate agents.

This project gave me a chance to put my full skill set to work for him.

Saying yes produced outstanding results for my client and my business. First, the investment gave my client's professional life renewed purpose, as he transitioned from the NFL to the life of a business owner.

Second, the process solidified my relationship with the client better than ever before.

Lastly, it added a new expertise to my practice that would attract more clients in the future.

I have several other stories in which saying yes has yielded similar results. One involves a real estate deal that would have been a complete disaster were it not for my advice on structuring the deal and imposing an iron-clad contract.

Being Open-Minded

I don't want every advisor to run out and become a yes man or woman. But I do want you to be more open-minded. We can't eschew investment opportunities simply because they are out of our comfort zones, or because we didn't think of them first.

Ultimately, I believe our clients want more than advisors. They want partners who help them not only reach their financial goals, but also help them express themselves through their money and investments.

And it starts by saying yes. **FP**

Allan Boomer *is managing partner and chief investment officer of Momentum Advisors in New York City. He co-hosts a weekly radio show on SiriusXM Channel 126 that focuses on wealth building and entrepreneurship. Follow him on Twitter @MomentumAdvice.*

A Warning for Breakaways

Advisors going independent should be aware of several red flags, Schwab says.

By Charles Paikert

It's not only legally dubious for wirehouse brokers planning to go independent to solicit clients for their new firm, it's unnecessary, says Tim Oden of Schwab Advisor Services.

"If you're a trusted advisor, your clients will find you," Oden said at a media briefing in New York. "You don't have to cut corners."

Wirehouses seeking a temporary restraining order to block breakaways are becoming "more sophisticated" in being able to find out if brokers have presolicited their clients, according to Oden, senior managing director for business development for Schwab.

Wirehouse employees who think they are "smarter than the wirehouses" are making a big mistake, he warned.

Shirl Penney, CEO of the New York-based platform provider Dynasty Financial Partners, which specializes in breakaway transitions, seconded Oden's admonition to wirehouse brokers. "The forensic analysis wirehouses undertake to track [broker] activity is pretty significant," he noted.

Flaunting employment agreements just isn't worth it, Oden and Penney agreed, citing a new Charles Schwab survey of advisors who have started or joined an RIA in the last seven years. According to the survey, breakaways who become independent retain 87% of their clients on average.

More than 90% of advisors surveyed who made the move said they would do it again and are happier after going independent. Seven in 10 said they had increased their revenue.

Nearly three-quarters of breakaway brokers took one year or less to move their clients and complete their transition to become an RIA.

The breakaway exodus shows no sign of slowing down, Oden said, citing robust M&A activity and high volume of "assets in motion."

But breakaways considering making the move have to be very judicious, Oden cautioned. A successful transition has to be carefully choreographed, and advisors have to "understand what they can and can't do."

He urged wirehouse brokers planning to become RIAs to get legal counsel and to "be respectful" of their current employers. They — and their spouses — also need to be all in, Penney said. "Becoming a RIA is like learning a foreign language," he explained. "It needs to be a full commitment. And spouses have to be on board, because [starting a new firm] means having two jobs for at least 12 months."

But the effort is worthwhile, said Jeff Farrar, who started Procyon Private Wealth Partners less than two years after leaving UBS. Procyon tapped new sources of revenue and potential growth that were unavailable at UBS, according to Farrar, the firm's executive managing director.

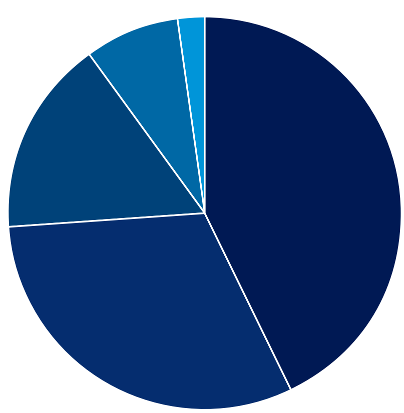
Having the freedom to offer and choose better services for clients has been a primary driver for breakaways, Oden said. "The client-driven need has been very strong," he noted. **FP**

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

Getting Up to Speed

Most breakways take less than a year to become independent.

- More than 1 year, 8%
- 7 months to 1 year, 43%
- 3 to 6 months, 31%
- Less than 3 months, 16%
- Don't know, 2%



Source: Charles Schwab

BLOOMBERG NEWS

Becoming Deft at DAPTs

Only 17 states permit these trusts, which can play an important role in planning for income taxes and estate taxes.

By Martin M. Shenkman

There's an acronym few financial advisors are familiar with — but they absolutely should get to know.

DAPT, the abbreviation for self-settled domestic asset protection trust, can play an important role in planning for both income and estate taxes.

What is a DAPT? Unlike most other irrevocable trusts, which are third-party trusts (for example, mom sets up a trust for her children); DAPTs are different because mom can also be a beneficiary. That flexibility offers potentially dramatic planning opportunities for clients.

Here's the catch: DAPTs cannot be created everywhere. The laws of 17 states permit them. The most popular of these states have been Delaware, Alaska, Nevada and South Dakota, although the more recent laws of some other states may also be favorable. Because most states still do not permit DAPTs, the trusts must be created in one of these states, often using a trustee in that state. That trustee in many cases is an institution.

Meanwhile, planners don't need to worry that having an institutional trustee will interfere with their business relationship with their client.

That's because most DAPTs can be directed trusts, meaning a person designated as the investment advisor directs the investment of the trust assets back to the same advisor who has served the client; the institutional trustee in the DAPT state does not have to manage investments (and many of them don't have that capability).

DAPT must be created in one of 17 states that permit them and must use a trustee in that state. That trustee often is an institution.

The uncertainty with DAPTs is whether clients in a non-DAPT state like New York can set up a DAPT in Nevada, and still have that trust respected.

While a recent court case in Alaska has been interpreted by some to suggest that they cannot, the question is still disputed by commentators and it appears that DAPTs may still be viable for non-DAPT state residents.

Asset Protection

Here's an example to show how DAPTs can offer asset protection to a moderately wealthy client: Consider a scenario in which you have a physician client worth $4 million. She's very worried about malpractice claims so understandably, she wants to protect her assets now. That said, she may also need those funds for her retirement years.

To accomplish both goals, she could gift $1 million of nonqualified plan savings into a trust that she's a beneficiary of.

She would arguably grow assets out of the reach of claimants, but still be able to access those assets when they are needed in retirement.

Meanwhile, the new tax law has also increased the allure of DAPTs. The new law temporarily doubled estate tax exemptions from $5.6 million to $11.18 million, adjusted for inflation. In 2026, the exemption drops back to the $5 million inflation-adjusted figure. (And that presumes that a future administration in Washington won't roll back the exemption sooner.)

What to Do?

So, while many clients simply want to ignore the estate tax as irrelevant, the growth in their wealth by 2026 may well put them over the estate tax threshold when the exemption is halved. What to do?

The new tax law raises the estate tax exemptions to $11.18 million but drops it back to $5 million by 2026.

Ultrahigh-net-worth clients can just gift the $11.18 million current exemption to a trust for heirs and use their exemption. But for most clients, that is not feasible as they will need access to the gifted money since the numbers are just so big relative to their wealth.

Consider an example where your client is worth $10 million. She wants to gift $6 million to use some of her exemption now and grow wealth out of her estate in light of the future drop of the exemption and general uncertainty over future tax laws.

Alaska is one of the states that permit domestic asset protection trusts.

BLOOMBERG NEWS

But unless she has the ability to access the assets as they grow in that trust, a transfer of this size would not be acceptable to her. A DAPT provides the perfect solution because she can be a beneficiary of that trust, yet still have the assets grow outside her estate.

How to create a DAPT: If your client lives in a DAPT state just do the plan. These states are Alaska, Delaware, Hawaii, Michigan, Mississippi, Missouri, Nevada, New Hampshire, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Utah, Virginia, West Virginia and Wyoming.

If your client lives in a different state, then you have to set up a trust in one of the above states, but there are some additional complications and risks.

The Uniform Voidable Transfers Act indicates that a transfer to a self-settled DAPT is voidable if the transferor's home state does not have DAPT legislation. This and the recent case in the Alaska Supreme Court suggest that for clients living in states not on the aforementioned list, the planning is riskier (but still possible).

The recent case is Toni 1 Trust v. Wacker. After both Montana and the U.S. Bankruptcy Court entered default judgments on a lawsuit claiming that the transfers to an Alaska trust were fraudulent, the trustee brought an action in Alaska courts seeking a judgment that the decisions in Montana and the U.S. Bankruptcy Court were essentially void because an Alaska statute provides that any court proceeding relating to transfers to self-settled Alaska trusts must be determined exclusively by Alaska courts. But the Alaska Supreme Court refused.

Some commentators have contended that the decision is the death knell for self-settled trusts created in any DAPT state by a resident of a non-DAPT state.

But the truth appears far different. All that the Supreme Court of Alaska held was that Alaska could not require that any proceeding relating to the transfer of assets to an Alaska self-settled trust be before an Alaska court. It did not invalidate self-settled trusts created in that state.

So, the game is still on, but should be played with caution.

How to do DAPTs better: There are a number of steps that can be taken to make a DAPT plan more secure, and advisors have a critical role in several of these, as well as informing clients of this planning option. There are also different approaches to structuring DAPTs that can make them safer.

Here are a few:

• Have the client sign a solvency affidavit confirming that they have adequate resources after the transfer for all their future expenses. Better still, back this up with a current balance sheet and financial forecasts corroborating the assumptions.

• Don't have the client listed as a current beneficiary of the trust. Rather, give someone acting in a nonfiduciary capacity (that is, without the legal constraints of a fiduciary, like a trustee) empowered to appoint descendants of the client's grandparents as additional beneficiaries. If the client needs the funds in the future, then the client can be added. Until added, the trust is not a DAPT, so even if the naysayers about DAPTs are right, the trust is not a DAPT until the client is added.

• Alternatively, give someone also in a nonfiduciary capacity the power to direct the trustee to make distributions to the client. In this way, the trust is arguably never a DAPT because the trustee never has the right to make distributions to the client creating the trust.

• Make loans instead of distributions to the settlor.

Why DAPTs remain vital to planners: Whether they're used for estate tax planning or asset protection, DAPTs are an important tool for financial planners.

They present a means for a client to secure assets from claimants and from future estate taxes, while still offering the client ability to access those assets.

If your client lives outside one of the DAPT states, consider the use of some alternative structures and take additional precautions to make the DAPT plan more likely to succeed. **FP**

DAPT at a Glance

- What – Domestic asset protection trusts are trusts clients set up, but clients also can be beneficiaries, meaning they can get money from the trust but creditors cannot.
- Why – Transferring assets to a DAPT is a way in which clients can move assets out of their estates for tax purposes (such as to use the current large exemption before it is reduced) yet still have access to the money. Few people are wealthy enough to move up to $11.18 million in assets out of their estates if they cannot access them.
- Who – Anyone concerned about lawsuits, malpractice claims or tax savings.
- How – A trust can be set up in one of the 17 states that permit DAPTs. Clients should consider corroborating that they have no present claims and have adequate assets to cover foreseeable expenses.
- When – This planning should be completed before 2026, when the exemption declines by half. It would be safer to complete it before 2020, when congressional elections could change which party is in power in Washington and lead to changes in the law.
- Where – 17 states permit DAPTs. While Alaska, Delaware, Nevada and South Dakota are the best known, each DAPT state has different rules and benefits. See https://bit.ly/2GMWJOR for a comparison.

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Why is **sexual harassment** still a problem in wealth management?

From inappropriate touching to belittling comments, women advisors confront workplace environments that are far from welcoming.

By Andrew Welsch

When a male co-worker got too close for comfort, he drove a financial advisor to leave a regional brokerage firm where she had been working for years.

He gave other female colleagues shoulder rubs they "did not want, nor ask for," said the advisor, who requested anonymity to share her story.

He took it a step further at an off-site client event, she said, putting his hand on her mid-thigh.

"It was so inappropriate, and I couldn't say anything because these were all clients," said the advisor, who now runs her own RIA firm. "I ended up making an excuse that I needed to get coffee, and I ran back to my hotel room. I was so scared."

Despite high-profile lawsuits such as the "boom-boom room" case involving Smith Barney more than 20 years ago, sexual discrimination and harassment remain stubbornly unresolved problems in wealth management — and female advisors point to what they say are workplace cultures that can feel disrespectful, even toxic, and a weak commitment from upper management to prevent misconduct.

To better understand sexual harassment in the workplace, SourceMedia

One in three women in the SourceMedia study reported being subjected to unwelcome sexual conduct in the workplace.

(which owns *Financal Planning* and many other brands serving professional communities) surveyed more than 3,000 individuals from a range of professions, including wealth management, human resources and accounting. On the prevalence of sexual misconduct, the financial advisory industry fared the worst.

One-third of women in wealth management reported a high prevalence of sexual misconduct in the workplace, according to the survey, which included 385 professionals in this industry. Another 22% said they believe the prevalence of sexual harassment is moderate, and 45% rated it as low.

Behavior such as making belittling comments can create a bad office environment, said women advisors, who requested anonymity in order to share their stories.

In some instances, they've encountered inappropriate touching and sexual advances. Managers, they said, are often indifferent. Unchecked attitudes sometimes extend to how resources are allocated and even to how clients and advisors interact.

'Problem is Inclusion'

One in three women in the study said that they personally have been a subject of unwelcome sexual conduct in the workplace.

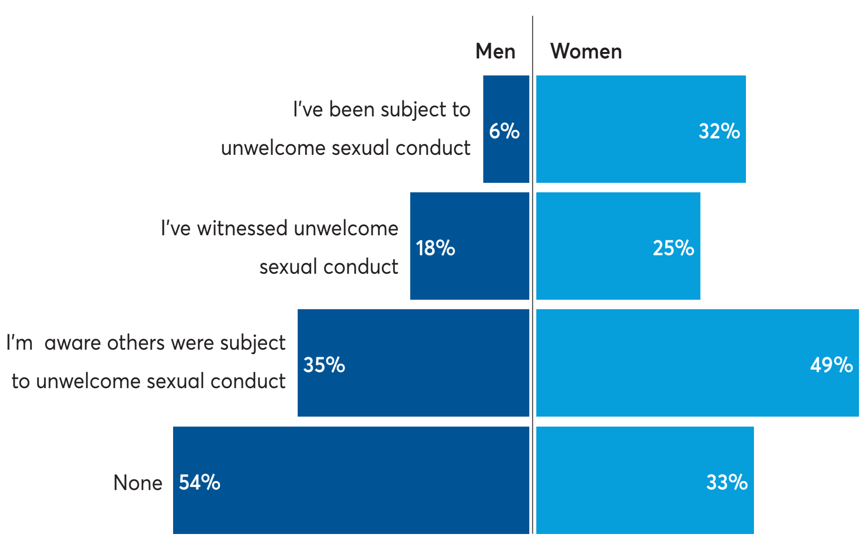
Their assessment is especially problematic for a business in which executives regularly tout their firm's culture to advisors and clients.

"The problem is inclusion," said an advisor who runs an RIA. "Once you're there in the profession, are you feeling included? Part of the team? Do you feel welcome? I think that's why you see so many, many women launch their own firm. They decide they're tired of the bullshit."

When asked what types of unwelcome conduct they've seen in wealth management workplaces, 59% of women in the SourceMedia survey pointed to inappropriate personal questions, jokes or innuendo. By comparison, only 39% of men said they've observed the same thing.

"I've been told, 'Wow, you've got your [lipstick] on today,'" said a wirehouse advisor who responded to the survey. "I'm like, they're lips. It's not like I can hide them. What can I do? I guess the next day I'll wear darker lipstick. Was it

Men and Women in Wealth Management Report Different Experiences



Note: Respondents could select more than one choice.

Source: "Sexual Harassment in the Professional Workplace," a SourceMedia Research survey, February-March 2018 meant sexually? No, but it's a comment that a man would never have gotten."

Female advisors say they or their female colleagues have been subjected to inappropriate comments, demeaning nicknames and jokes taken too far. The wirehouse advisor recalled a big producer in a branch office who would refer to female sales assistants as "my bitches." The former regional BD advisor said she once had a male manager who referred to a sales assistant as "that old whore."

Fear of Exclusion

Sometimes the offenses are blatant and sometimes they're subtle, but in either case, women say, it's hard to speak up for fear they'll be seen as humorless, not one of the gang.

"Sometimes there are jokes, and there's no question — no one thinks they are serious," the wirehouse advisor said. "But when you have 80% to 90% of the advisors in the office making between $150,000 to $450,000, and the sales assistants are 80% to 90% women and their salaries average $45,000 to $50,000 … it lends itself to a situation where the men can say certain things."

Indeed, even among financial advisors, there's a wide compensation gap. As of 2017, full-time female advisors earned just 59 cents for every dollar their male colleagues earned, according to data compiled by the U.S. Bureau of Labor Statistics.

That's the widest wage gap of all 150 occupations tracked by the statistical agency. (The statistics track full-time workers, and accounts for weekly earnings, including base salary and commissions, but not annual bonuses.)

Unequal attitudes sometimes permeate advisor-client relationships, too. An ex-wirehouse advisor recounted a moment early in her career when she joined some male colleagues to meet with an all-male corporate board.

"I'm the only woman, and I walk in and this [client] says, 'Wow, it's nice to have an attractive woman here for a change,'" she said, adding that similar comments occur all the time.

Another woman, who worked at

Although female advisors were less likely to engage in financial wrongdoing than their male peers, they were 20% more likely to lose their jobs if they did.

"'Everyone is a member of the team and should be treated well.' I've never heard that message."

"It was so inappropriate, and I couldn't say anything because these were all clients."

"Culture starts at the top."

"I think that's why you see so many women launch their own firms. They decide they're tired of the bullshit."

"I've been told, 'Wow, you've got your [lipstick] on today."

"I was so scared."

"I'm the only woman, and I walk in and this [client] says, 'Wow, it's nice to have an attractive woman here for a change.'"

"I ended up making an excuse that I needed to get coffee, and I ran back to my hotel room."

Smith Barney and Merrill Lynch before leaving Wall Street, noted the business has historically been dominated by men, influencing every aspect of the business, including its nomenclature.

Pointing to phrases like "appetite for risk" and "risk tolerance," she said, "It's like a male endurance test." Even Wall Street's bronze mascot, the Charging Bull, is a very masculine image, she said.

But it's not just a question of symbols. Some women said men got preferential treatment in accolades, resources and pay — and also compliance. The data backs them up.

Even though female advisors were less likely to engage in financial wrongdoing than their male peers, women were 20% more likely to lose their jobs and 30% less likely than men to find new jobs after wrongdoing, a 2017 study by three finance professors found.

"Females face harsher outcomes despite engaging in misconduct that is 20% less costly and having a substantially lower propensity toward repeat offenses," the report said.

Uneven Distribution of Resources

The preferential treatment also extends to how advisors land big client accounts, women said.

"There are ways that management can help producers become bigger producers," said the former wirehouse advisor. Early in her career she was one of just two women in her wirehouse branch office.

"They just didn't put resources behind them in the way they did the biggest producer and, boy, did he get some sweetheart deals," she said.

Men and women don't see eye to eye on the problems, so it's perhaps not surprising they also don't agree on solutions. Nearly three-quarters of female advisors say workplace cultural changes are required, but only 54% of men say this, according to SourceMedia's survey. More than half of women called for increased sensitivity training at work, versus just one-third of men. And 7% of men said no changes were necessary.

"I think the men just don't know what's appropriate and not appropriate," a former Smith Barney advisor said. Correcting bad behavior and making the workplace more inviting requires better HR practices and commitment from leaders, she said.

Nearly three-quarters of female advisors say workplace cultural changes are required, but only 54% of men say this.

"I think it has to go beyond just watching a video once a year that says, 'You can't do this; you can't do that.' It has to come from the leader in the office saying, 'We're all important here. Every single person. Everyone is a member of the team and should be treated well.' I've never heard that message," she said.

Of course, getting management to acknowledge problems, let alone solve them, can be difficult. The former regional brokerage advisor says she confronted the colleague about his behavior and he rebuffed her, saying his secretary was fine with it.

Her boss also brushed her off, saying the man in question would never behave inappropriately. "I think they don't see it because it doesn't happen to them," the advisor said.

One male respondent to SourceMedia's survey said harassment isn't prevented, and when it is reported, it's minimized as a personality conflict. "We also fail to appreciate that little things accumulate into big things over time," he said.

A man with about 50 years of experience in the industry said he wasn't aware of overt sexual harassment in the offices where he's worked. However, he noted that the profession has historically hired few women advisors. Social mores and the industry's eat-what-you-kill mentality have traditionally hindered women, he said.

"Men tend to take on more of the primary breadwinner role, coming into the office early and staying late and coming in on the weekends," this advisor said. "That tends to make a difference in a profession where you need to build up a business. I've seen successful women, but they are a minority."

Beyond the Office

Effecting real change may also require efforts outside the office, as workplace culture isn't isolated from what happens outside the branch, said the advisor who owns her own RIA. She pointed to an incident last year in New York's Financial District.

A statue of a girl was placed by asset manager State Street near the iconic Charging Bull as part of a campaign to encourage more companies to add women to their boards. The statue, dubbed Fearless Girl because she appears to be staring down the bull, was widely hailed as an empowering image for women. Days later, a photo of a man in a suit simulating a sexual act with the statue went viral.

It's not known if that man faced any repercussions, but imagine the message it would send to women if he had faced a public rebuke from his boss, she said.

"Culture starts at the top," the advisor said. **FP**

Andrew Welsch *is a senior editor of* Financial Planning. *Follow him on Twitter at @andrewwelsch.*

10 Key Findings

A survey covering many industries reveals troubling trends in wealth management.

By Chelsea Emery, Bonnie McGeer and Dana Jackson

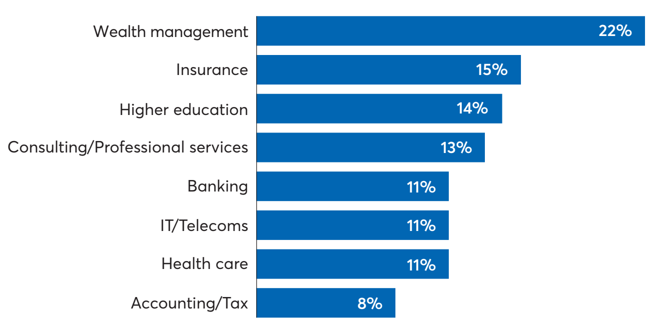
Earlier this year, SourceMedia, the parent of *Financial Planning*, undertook an unprecedented survey of sexual harassment in the professional workplace, spanning industries covered by the company's many publications. While the data reveal stunning lapses in how wealth management firms investigate and penalize unwanted sexual behavior, some findings also light a path forward.

1) Sexual harassment is most prevalent in wealth management among all sectors studied

Financial advisory professionals are far more likely to say unwanted sexual conduct is highly prevalent in their industry than the average survey respondent.

Many respondents cited their industry's history and traditions as a factor. "It's getting better, but it is a carryover from years past when the industry included a substantial amount of flirting and hitting on, which today is more likely than not called sexual harassment," says one male survey respondent, who has 25 years of industry experience.

Prevalence by Industry Sector



Notes: Chart shows percentage of all respondents who rated sexual harassment as "high prevalence." Respondents rated perceived prevalence of sexual harassment in their industry using a rating scale of 0-10 where 0 means sexual harassment is not present and 10 is highly prevalent. High prevalence = rating score 7-10

Additional respondent comments:

"While there have been some high-profile lawsuits by women, the locker room attitude continues." (M, 55-59)

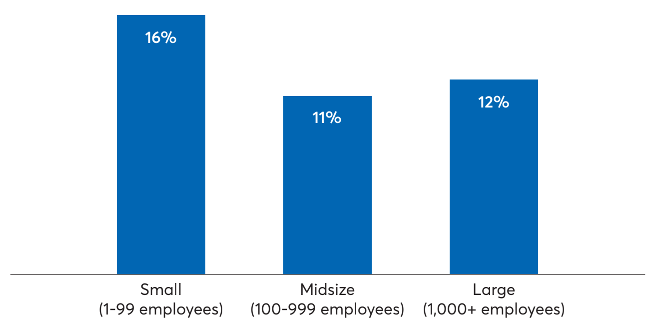
There is a "relatively high ratio of males to females in all roles, but especially in higher-power roles." (F, 55-59)

"Investment advisory is very male, lots of big egos. I see the worst behavior when I'm at a conference — the alcohol and being away from home seems to make some men regress back into 18-year-old frat boys." (F, 60-64)

2) Smaller organizations are more vulnerable

Among respondents at organizations with fewer than 100 employees, 16% say harassment is highly prevalent in their industry. The responses suggest this is related to a lack of extensive human resources departments that would otherwise facilitate training and patrol transgressions. When companies have fewer than 100 employees, "it is easy to be loose and less professional as there are no ramifications," says one respondent. (M, 50-54)

Prevalence by Company Size



Notes: Chart shows percentage of all respondents who rated sexual harassment as "high prevalence." Respondents rated perceived prevalence of sexual harassment in their industry using a rating scale of 0-10 where 0 means sexual harassment is not present and 10 is highly prevalent. High prevalence = rating score 7-10

Additional respondent comments:

"At least for my company, we are too small and don't have a big-name reputation at stake. We also don't have the resources or employees who are trained to handle these situations." (F, 30-34)

"A lot of firms are small without an effective HR mechanism to make a complaint." (M, 50-54)

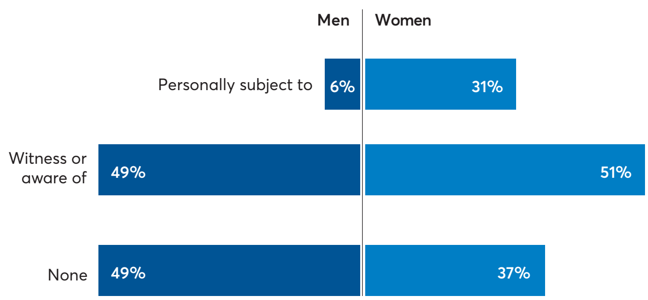
3) Men have high awareness of sexual harassment in their industries ...

Women are more likely to have personally been subject to sexual harassment (31% of all female respondents), but men and women are equally aware that harassment is happening. Awareness is defined as having experienced, witnessed or heard about unwelcome sexual conduct.

Respondent comments:

"It appears to have reached a groundswell such that most, if not all, industries are likely to finally take women seriously in the workplace. It's about time. I'm a white male, so I've no ax to grind." (M, 50-54)

Men and Women Are Almost Equally Aware, but ...



Notes: Chart shows percentage of men and women who have either encountered sexual harassment in their workplace or have witnessed it or been aware of it. Sexual harassment refers to: Inappropriate personal questions/jokes or innuendo, suggestive text messages or emails; persistent unwelcome requests; sexual pictures, posters, etc.; threats of retaliation for not complying with sexual requests; and unwanted touching.

"As an administrator, I saw acts of sexual misconduct, comments made about female and male representatives. These acts came from all levels, from executives to independent agents." (F, 35-39)

"Everyone is watching everyone; however, some people will still violate boundaries." (M, 60-64)

"Lack of law, culture that victim gets further pressure from gossip." (M, 35-39)

"I will admit that, during my time in the [banking] industry, a problem with sexual misconduct happened, but it was addressed and the guilty person was terminated." (M, 70-74)

4) ... But men have a blind spot

It seems woke men aren't really that woke. There is a gap between what women who have experienced sexual harassment say is happening in the workplace and what men say is happening and to what extent.

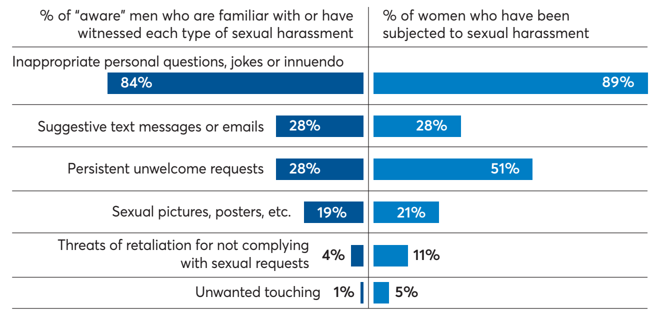
Men cite "inappropriate questions, jokes and innuendo" to the same degree as women. But men are far less aware of the extent of persistent unwelcome requests, threats of retaliation and unwanted touching — perhaps because these behaviors are deemed acceptable by some men, or perhaps because these behaviors are less visible.

Respondent comments:

"At the start of my profession as an auditor, I was sexually harassed by clients and my employer did nothing to deal with the issue." (F, 60-64)

"Even with education, it is sometimes not identified as sexual harassment." (F, 55-59)

... Many Men Don't See the Worst of It



Note: Respondents could select more than one choice

"I think an appreciation and understanding of what is appropriate and inappropriate is a big part of the issue." (M, 45-49)

"Associates work together a lot. Sometimes very late and develop a rapport. Boundaries blur and sometimes lines are crossed. This field is male-dominated too, so any 'attractive' woman may also receive more attention because of it." (M, 21-25)

"Employees think everyone accepts this behavior as 'playing around.'" (F, 40-44)

5) Six percent of men say they have been the subject of sexual harassment; nearly half of them sit in the executive suite today

"Some people — male and female, just can't help themselves," says one man (60-64). "I'm not certain if 'unwelcome sexual conduct' will ever be eliminated, but hopefully some people will be a little smarter about their actions."

Additional respondent comments:

"Constant invites to 'work out' together." (M, 30-34)

"Long hours, late nights, strong pressure to advance through complying with requests." (M, 30-34)

"Long hours and lots of stress. In the office most of the day, people tend to attract to one another." (M, 21-25)

"Desire for power [over] others." (M, 40-44)

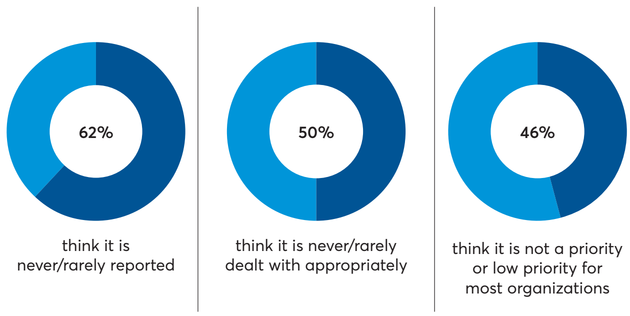
6) Apathy reigns when harassment is frequent, underreported and tolerated

When we focused on respondents who find themselves in the worst-case scenario — those who perceive high frequency of harassment, lack of reporting and lack of organizational responsiveness — we found a real sense of hopelessness and even bitterness.

These respondents have little faith that the problem of sexual harassment in the professional workplace will be solved. Unwanted sexual behavior is going unreported, these respondents say. They don't believe their industries have prioritized fixing the issue. Some respondents understood the implications: "Our industry is a critical industry and one source of the nation's wealth," writes one female information technology professional (age 40-44). "They [must] prioritize this matter

Little Hope That Change Will Come

Among those who have encountered or experienced sexual harassment and deem it to be widespread in their industry…



Notes: Data is based on respondents who have encountered or experienced sexual harassment in their career and also think it is highly prevalent in their industry.

highly in order to sustain and keep competent employees."

Additional respondent comments:

"I think it's a priority when a complaint is filed, but lower ongoing priority than other business needs." (F, 50-59)

"Everyone is paying it lip service. The orgs where this is prevalent think they can continue to get away with it." (M, 40-44)

"There are so many competing priorities and other legislative burdens that have to be complied with; this is just one in a long list of items that have to be dealt with." (F, 50-54)

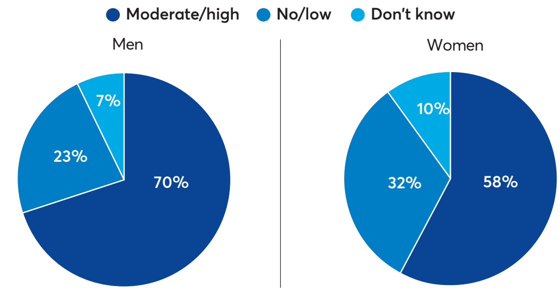
7) Executive women are more likely to believe their industry views harassment as a low priority than executive men

Executive women — almost a third of whom say they have experienced unwelcome sexual behavior — aren't as confident that their industries are willing to address and solve the problem of workplace sexual harassment.

Compared with male executives, they are less likely to believe their industry has prioritized the issue. Even as executive women express frustration, they cite business needs: "Upper management has more pressing priorities," says one woman, a 20-year veteran in the consulting industry. "They are typically male and don't see the need

Female Executives Are Less Hopeful

% of upper management professionals who think addressing sexual harassment is a ___ priority



Notes: "Sexual harassment" refers to: Inappropriate personal questions/jokes or innuendo, suggestive text messages or emails; persistent unwelcome requests; sexual pictures, posters, etc.; threats of retaliation for not complying with sexual requests; and unwanted touching.

for increased emphasis."

Additional respondent comments:

"Industry will be slow to change if it costs money to do so. They will weigh the risk and the reward for changing their culture or process." (F, 55-59)

"Historically, too few women in positions of upper management/C-suite level; male attitudes that such behavior is just 'joking around' or 'banter;' fear that not going along with it is perceived as not being a team player." (F, 40-44)

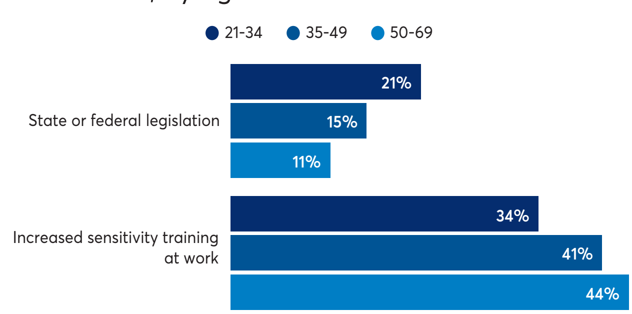
"Addressing this issue presents an immediate cost with very little perceived benefit, at least initially." (F, 40-44)

8) Young people have a different take on what solutions will work

While respondents overall rank government intervention low among possible solutions to the problem of harassment,

Millennials Are More Supportive of Government Intervention

Perceived solutions to prevent workplace sexual harassment, by age



Notes: Respondents were asked to select from a list of six potential solutions for changes needed to prevent sexual harassment. Not all choices are shown. Respondents could select more than one choice.

the millennial generation is more open to such measures than other generational age groups. Millennials, aged 21-34, were also less likely to believe that workplace sensitivity training would be an effective solution. (Across all age groups, respondents put more faith in solutions within the company: workplace cultural changes, upper management commitment and better HR procedures to handle complaints.)

Respondent comments:

"Good talking point like diversity, innovation and other buzzwords. I am skeptical about the follow-up on these issues. (M, 26-29)

"No one cares here. They only want to 'appear' to care." (F, 30-34)

9) Women who experience the most severe forms of sexual harassment are doubtful it will be handled fairly

Fewer than half of respondents say they think harassment is handled fairly by organizations in their industry. Women who have been subject to the most severe forms of unwelcome sexual behavior have the least confidence organizations in their industry will do the right thing.

Negative Experiences Affect Outlook

% of respondents who think sexual harassment in their industry is dealt with fairly

Notes: Data is based on how respondents think that reports of sexual harassment have been with in their industry. *The most severe forms of sexual harassment" include persistent unwelcome requests, inappropriate comments, text messages/emails and unwanted touching.

Respondent comments:

"Because the banking industry's leaders are generally asleep at the wheel, taking action as we have done at our organization is not happening at peer banks." (F, 50-54)

"Financial services industry has never dealt with women in a real way. Unfortunately, there are not enough women in upper management to force change." (F, 60-64)

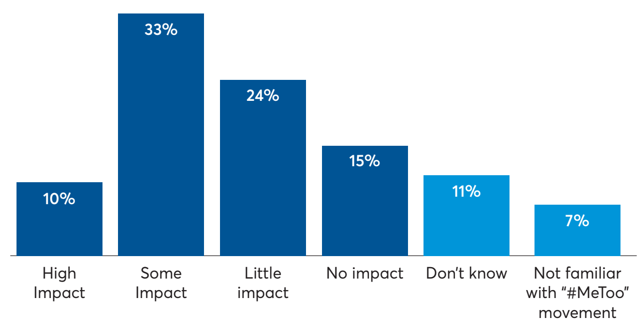
"Too many other mandatory job requirements on their plate to deal with other important issues." (M, 65-69)

10) Message to a jaded society: Most professionals and business people see #MeToo as a positive force

A majority of respondents, regardless of age, rank or gender, believe the #MeToo movement will create at least some change in the workplace, though only 10% say it will have a high impact. But a strong belief that change is coming has clearly permeated the communities we surveyed.

Perceived Impact of #MeToo

% of respondents who think the #MeToo movement will have an impact on their industry in 2018



Source: "Sexual Harassment in the Professional Workplace," a SourceMedia Research survey, Feb.-March. 2018

Additional respondent comments:

"The #MeToo movement has upper-level executives scared. They now realize the consequences for this unwanted behavior." (F, 50-59)

"I would think the impact will always be both negative and positive. Positive in the sense that it will shed light on the issue but negative in a sense that people will look to take advantage of this movement at the expense of the people involved and overall cause." (M, 35-39)

"Social media movements move the media, not so much the real world. Makes people feel good to self-actualize but has little impact on actual behaviors. Real people doing real things within the organization and among its client/customer base will have meaningful impact." (M, 65-69) **FP**

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The upper limits have been reduced on the amount of debt to acquire or improve a residence that can be deducted.

Mortgage Interest Pitfalls

Sweeping tax changes have made it more important than ever to understand what is, and isn't, deductible.

By Michael Kitces

The tax deduction for mortgage interest has been a pillar of the U.S. tax code for decades. Yet last year's tax overhaul significantly raised the stakes on properly qualifying what is deductible mortgage interest for homeowners.

The real issue is not just the headline-grabbing reductions on upper limits that were implemented under the new law, but also the thousands of taxpayer dollars in deductions that can pivot on a fine distinction: acquisition indebtedness or home equity indebtedness.

Knowing how to navigate this sometimes treacherous ground will be critical in coming years. It also provides another way for planners to add client value the next time tax season comes around.

Qualified Residence Interest

Before the new tax law, the mortgage interest deduction under IRC Section 163(h)(3) had been around, largely unchanged, since the 1986 tax overhaul.

Under the rules established at that time, mortgage interest could be treated as deductible qualified residence interest as long as it was interest paid on either acquisition indebtedness or home equity indebtedness.

Acquisition indebtedness was defined as mortgage debt used to acquire, build or substantially improve the taxpayer's primary residence or a designed second residence (and secured by that residence).

In 2018, the new rules entirely eliminate the ability to deduct the interest on home equity indebtedness.

Meanwhile, home equity indebtedness was defined as mortgage debt secured by the primary or second residence and used for any other purpose.

These distinctions were important, because interest on up to $1 million of acquisition debt principal was deductible, while home equity indebtedness interest was deductible only on the first $100,000 of debt principal.

In addition, interest on home equity indebtedness was not deductible at all for alternative minimum tax purposes under the provisions of IRC Section 56(b)(1)(C)(i).

Despite the relatively straightforward wording of these provisions, they impact homeowners in myriad ways, depending on their unique circumstances. These following scenarios demonstrate some of the distinctions.

BLOOMBERG NEWS

Example 1. Bradley and Angela purchased their $700,000 residence by putting 20% down and financing the rest with a traditional 30-year mortgage. Because the $560,000 loan proceeds were used to acquire their primary residence, interest on the mortgage was tax deductible.

Several years later, the residence has appreciated to $800,000 and the couple has taken out a $150,000 HELOC to repay some credit card debt and finance the last two years of college for their children. The $150,000 HELOC is treated as home equity indebtedness, which means the interest on only the first $100,000 of it is deductible.

Notably, IRC Section 163(h)(3)(H)(i) also explicitly states that if acquisition indebtedness is refinanced, it remains acquisition indebtedness to the extent of the original amount of acquisition indebtedness remaining.

Thus, if after several more years Bradley and Angela have repaid their HELOC and decide they want to refinance their original mortgage — which has now amortized down to a loan balance of $400,000 — they can retain acquisition indebtedness treatment on the $400,000 balance on their refinanced mortgage.

However, any additional debt — such as from a cash-out refinance — would not be acquisition indebtedness (unless it qualified on its own), even if the total debt remains under the original $560,000 balance, because only the $400,000 remaining balance is considered acquisition indebtedness when refinancing.

How It's Used

In the most common case in which a mortgage is taken out to buy a house, the loan is clearly acquisition indebtedness, as the loan proceeds are literally used to acquire the primary residence.

Yet because the determination of acquisition indebtedness is based on how the mortgage proceeds are used — not the structure of the loan itself — a HELOC can also be considered acquisition indebtedness if it's used to acquire, build or substantially improve the residence.

With the standard deduction now higher, the mortgage interest deduction may be moot in the future for many homeowners.

Example 2. Jeremy has a fully paid off primary residence worth $350,000. He takes out a $40,000 home equity line of credit and draws on the HELOC, with a five-year repayment period, to build an expansion to the house for his daughter and granddaughter. Because the proceeds of the HELOC were used to make a substantial improvement to the primary residence, any interest on the HELOC will be treated as acquisition indebtedness, and not home equity indebtedness.

The fact that the determination of mortgage debt treatment is based on how the proceeds are used means that there can be multiple loans that are treated as acquisition indebtedness.

Example 3. Jenny is trying to qualify for a mortgage to buy her first residence, a $250,000 condo. With a limited down payment and a desire to minimize her exposure to private mortgage insurance, she takes out a $200,000 30-year primary mortgage with no PMI and a $25,000 15-year second mortgage with PMI, and makes a 10% ($25,000) payment at closing.

Even though there are multiple loans, all of them were used to acquire the residence, meaning that all of the interest will be treated as acquisition indebtedness.

Notably, there isn't even a requirement that a mortgage loan be made by a traditional bank for it to be considered acquisition indebtedness. It simply must be a loan, for which the proceeds were used to acquire, build or substantially improve the primary residence, and it must be secured by that residence (that is, recorded as a lien against the property).

Intrafamily Loans

Accordingly, even the interest payments on an intrafamily loan can qualify for acquisition indebtedness treatment for the borrower.

Example 4. Harry and Sally are hoping to purchase their first home to start a family, but Harry's poor credit makes it difficult to qualify for a mortgage. Fortunately, Sally's parents are willing to lend the couple $250,000 to buy a townhouse, financing 100% of the purchase, with favorable family terms of just 3% on a 10-year interest-only balloon loan, which amounts to a monthly mortgage payment of just $625 per month before property taxes and homeowner's insurance.

To protect the parents though — and to ensure deductibility of the interest — the intrafamily loan is properly recorded with the county as a lien against the property. As a result, the $625 monthly mortgage payments will be deductible as mortgage interest.

On the other hand, while a wide range of mortgages — including both traditional 15- and 30-year mortgages, intrafamily interest-only balloon loans and even HELOCs used to build an addition — can qualify as acquisition indebtedness, it's also possible for traditional mortgage loans to be treated as at least partially as home-equity indebtedness and not acquisition indebtedness.

Example 5. John and Jenna have been living in their primary residence for seven years. The property was originally purchased for $450,000, which was paid with $90,000 down and a $360,000 30-year mortgage at 5.25%. The loan balance is now down to about $315,000, and the couple decides to refinance at a current rate of 4%. In fact, they decide to refinance their loan back to the original $360,000 amount, and use the $45,000 cash-out refinance to purchase a new car.

In this case, while the remaining $315,000 of original acquisition indebtedness will retain its treatment, interest on the last $45,000 of debt — that is, the cash-out portion of the refinance — will be treated as home equity indebtedness. That's because the proceeds were not used to acquire, build or substantially improve the primary residence.

This case shows that even a single loan may be a combination of acquisition and home equity indebtedness, based on how the loan proceeds were actually used.

The distinction applies to reverse mortgages as well. In these cases, interest payments often aren't deductible annually because the loan interest simply accrues against the balance and may not actually be paid annually in the first place.

However, to the extent that interest is paid on the reverse mortgage, the underlying character of how the debt was used still matters to determine whether or how much of the interest payments are deductible.

Example 6. Shirley is a 74-year-old retiree who lives on her own in a $270,000 home that has a $60,000 outstanding mortgage with a principal and interest payment of about $700 a month. She decides to take out a reverse mortgage to refinance the existing $60,000 debt to eliminate her monthly payment, and then begins to take a draw of an additional $300 a month against the remaining line of credit to cover her household bills.

The end result is that any interest paid on the first $60,000 of debt principal will be acquisition indebtedness — that is, a refinance of the prior acquisition indebtedness — but any interest on the additions to the debt principal at $300 a month in loan payments will be home equity indebtedness payments.

Mortgage Interest Deductibility Before and After Last Year's Tax Overhaul

	Amount Deductible	
	Before TCJA	After TCJA
Mortgage debt for the acquisition of a residence	$1 million	$750,000*
Home equity debt to improve a residence†	$1 million	$750,000*
Home equity debt not used for home improvements	$100,000	$0‡

*Existing mortgages are grandfathered under the old $1 million limit
†Debt secured by and used to substantially improve the primary or second residence
‡Existing home equity debt is not grandfathered

Source: Michael Kitces

New Rules for Mortgages

Ultimately, the distinction between interest on acquisition indebtedness versus home equity indebtedness isn't merely that they have different debt limits for deductibility and different AMT treatment.

Rather, under the new tax law, the acquisition indebtedness limits have been reduced, and home equity indebtedness will no longer be deductible.

Specifically, TCJA reduces the debt principal limit on acquisition indebtedness from $1 million down to just $750,000.

Notably, the lower debt limitation applies only to new mortgages taken out after Dec. 15, 2017.

Any existing mortgages retain their deductibility of interest on the first $1 million of debt principal. In addition, a refinance of such grandfathered mortgages will retain their $1 million debt limit — but only to the extent of the then-remaining debt balance, and not any additional debt.

Residences that were under a binding written contract by Dec. 15 and closed by Jan. 1, 2018, are also eligible. And the $750,000 debt limit remains a total debt limit of the taxpayer, which means it is effectively for the combined acquisition indebtedness of a primary and designated second home.

On the other hand, the new rules entirely eliminate the ability to deduct interest on home equity indebtedness, effective in 2018. There are no grandfathering provisions for existing home equity debt.

This means that in practice, the

distinction is no longer between acquisition indebtedness versus home equity indebtedness per se, but simply whether or how much of the mortgage debt qualifies as acquisition indebtedness at all or not.

If some or all of it does qualify, then that portion is deductible interest to the extent that the individual itemizes deductions.

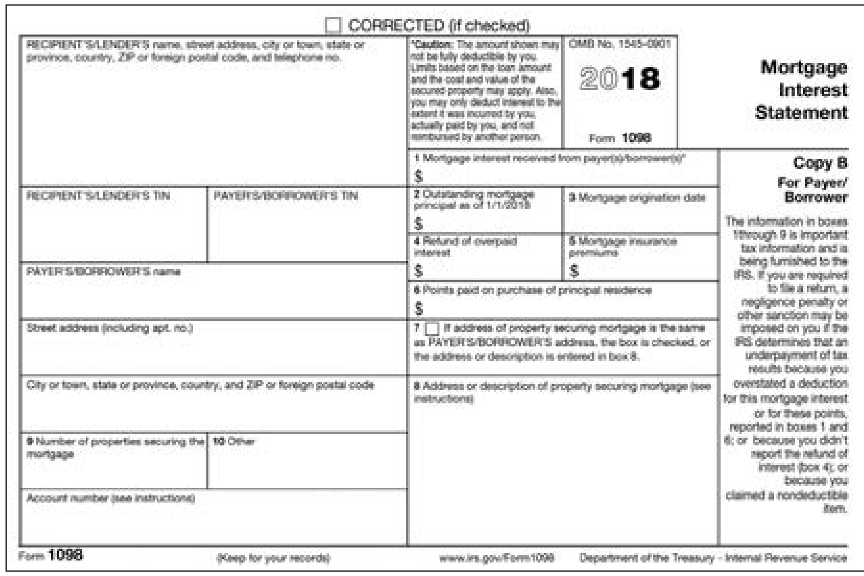
Further complicating the matter is the fact that IRS Form 1098, which reports the amount of mortgage interest paid each year, makes no distinction between acquisition versus other now-nondeductible debt interest. This isn't entirely surprising, given that the mortgage lender or mortgage servicer wouldn't necessarily know how the mortgage proceeds were subsequently spent.

Nonetheless, the fact that mortgage servicers will routinely report the full amount of mortgage interest on Form 1098, when not all of that interest is necessarily deductible, will almost certainly create confusion for taxpayers and may even cause the IRS to update the form.

This is especially likely in light of the fact that existing guidance from IRS Publication 936 is not entirely clear with respect to how debt balances are repaid in the case of so-called "mixed-use mortgages" — where a portion is acquisition indebtedness and a portion is not.

Example 7. Last year, Charles refinanced his existing $325,000 mortgage balance into a new $350,000 mortgage on his $600,000 primary residence, and used the $25,000 proceeds of the cash-out refinance to pay down credit card debt. Now, Charles has received an unexpected $25,000 bonus from his job, and decides to prepay the $25,000 back into his mortgage.

At this point, the mortgage is


☐ CORRECTED (if checked)
RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
*Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.
OMB No. 1545-0901
2018
Form 1098
Mortgage Interest Statement
1 Mortgage interest received from payer(s)/borrower(s)*
$
RECIPIENT'S/LENDER'S TIN
PAYER'S/BORROWER'S TIN
2 Outstanding mortgage principal as of 1/1/2018
$
3 Mortgage origination date
Copy B
For Payer/ Borrower
4 Refund of overpaid interest
$
5 Mortgage insurance premiums
$
PAYER'S/BORROWER'S name
6 Points paid on purchase of principal residence
$
Street address (including apt. no.)
7 ☐ If address of property securing mortgage is the same as PAYER'S/BORROWER'S address, the box is checked, or the address or description is entered in box 8.
City or town, state or province, country, and ZIP or foreign postal code
8 Address or description of property securing mortgage (see instructions)
9 Number of properties securing the mortgage
10 Other
Account number (see instructions)
The information in boxes 1 through 9 is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a nondeductible item.
Form 1098 (Keep for your records) www.irs.gov/Form1098 Department of the Treasury - Internal Revenue Service

A word of warning: mortgage servicers may report interest on Form 1098 that is no longer deductible.

technically $325,000 of acquisition indebtedness and $25,000 of non-acquisition debt. But the mortgage servicer simply reports a total debt balance of $350,000.

If Charles makes the $25,000 prepayment of principal, will the amount be applied against his total $325,000 of acquisition indebtedness, his $25,000 of non-acquisition debt or pro rata against the entire loan balance?

If the IRS follows the spirit of its prior guidance from IRS Publication 936, the $25,000 would be applied fully against the nondeductible — formerly the home equity indebtedness — balance first, but at this point it remains unclear how payments should be applied. Similarly, even as Charles makes his mortgage payment of roughly $1,800 a month, it's not clear which portion of his debt is reduced.

Nonetheless, the fact that Form 1098 doesn't delineate the amount of remaining acquisition indebtedness, or whether or how much of the mortgage interest is deductible, does not change the fact that only mortgage interest paid on acquisition indebtedness is deductible.

Taxpayers are still expected to report their deductible payments properly, and they risk paying additional taxes and penalties if caught misreporting in an audit.

Higher Standard Deduction

Of course, it's worth noting that with a higher standard deduction — particularly for married couples — the higher threshold to even itemize deductions in the first place means mortgage interest deductibility may be a moot point for many in the future anyway.

Yet for those who can benefit from itemization, it becomes more important than ever to understand the proper classifications of mortgage debt and its deductibility. **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.*

BLOOMBERG NEWS

It Pays to Take RMDs Early

Sometimes the strategy can eliminate a domino effect on other expensive tax problems down the road.

By Ed Slott

Required minimum distributions are usually due by the end of the year, so why bring them up now? Isn't it best to take them late in the year to maximize the tax-deferred buildup for as long as possible?

In theory that sounds right, but there are practical advantages to taking the RMD earlier in the year.

For one, taking RMDs earlier in the year puts less pressure on the beneficiaries if the client dies before taking the distribution.

We often see problems in the year of death, especially when beneficiaries have a tight window to take the year-of-death RMD. When an IRA owner subject to RMDs dies before taking the distribution for the year, it must be taken by the beneficiary.

The beneficiary takes the RMD amount that the deceased IRA owner would have had to take had he lived.

Problems arise because there is sometimes not enough time to get this done when an IRA owner dies late in the year.

For example, if the client dies in December without having taken the RMD for the year, an inherited IRA generally needs to be set up and the beneficiaries must take the RMD (each taking their share) by year-end. That's unlikely to be done.

First, before an inherited IRA can be set up, a death certificate must be presented to the IRA custodian. That may take some time, depending on the circumstances and who the beneficiaries are.

If the IRA beneficiary is a trust, for instance, that might add a layer of complexity and delays. Or if the beneficiaries reside in different states, paperwork may take longer even with scanning and email.

We often see problems in the year of a client's death, especially when the beneficiaries have a tight window in which to take the RMD.

Sometimes beneficiaries are hesitant to take action without consulting advisors on their own behalf, especially if there are some issues among siblings or other beneficiaries. Things can get a bit messy, for example, in a blended-family situation.

These issues can cause delays, and you may have experienced this with clients. It's a good idea to review all IRA and plan beneficiary forms now to avoid disputes and ambiguity after death.

A beneficiary form review and update is a simple but high-value service that advisors can provide.

Setting up inherited IRAs also means making direct transfers. Inherited IRAs can only be funded via a trustee-to-trustee transfer from a decedent's account. These transfers tend to be more time consuming, adding to delays. A non-spouse IRA beneficiary can never do a 60-day rollover.

In addition, taking an RMD for a deceased parent a few weeks after death is not usually first on anyone's to-do list.

Of course there are remedies for a missed RMD, but this requires more time and work for your client, the tax preparer and the beneficiaries.

Waiving the Penalty

Once there is a missed RMD, the 50% penalty becomes an issue that must be dealt with.

First, the missed RMD must be made up by the beneficiaries as soon as possible. The year-of-death RMD is not taken by the estate.

That means the beneficiaries must each file IRS Form 5329 (Additional Taxes on Qualified Plans and Other Tax- Favored Accounts) for the year of death, requesting that the penalty be waived due to the death of the taxpayer, and stating that the missed year-of-death RMD was taken by the beneficiaries.

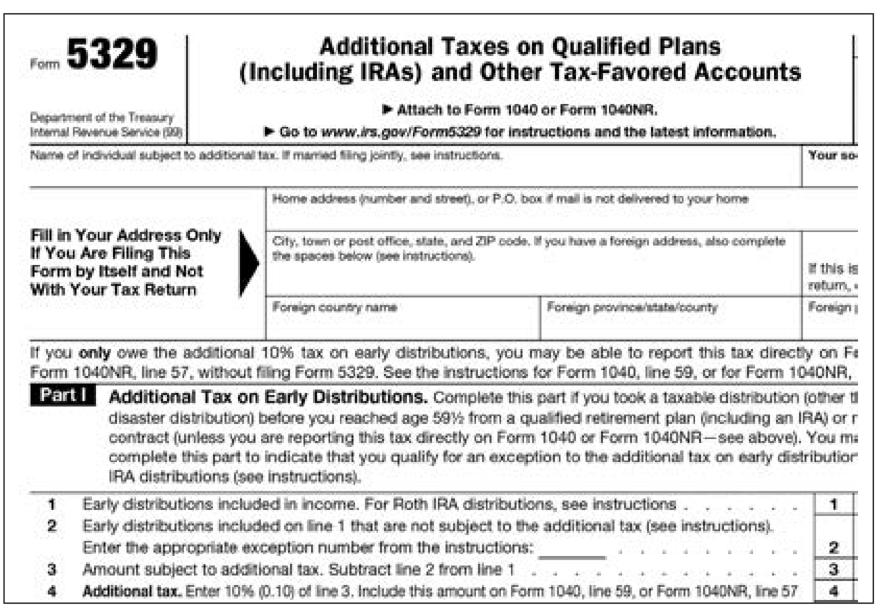
RMDs cannot be converted to Roth IRAs, because they are considered rollovers, and RMDs are not eligible to be rolled over.

That form must be filed, or the 50% penalty will never be removed. The penalty will continue looming as a liability. The IRS and U.S. Tax Court consider Form 5329 a separate standalone tax form because it has its own signature line.

If the form is not filed, the statute of limitations never begins to run and the beneficiary will have an open liability to the IRS.

But this entire correction scenario can be avoided by taking RMDs earlier in the year. Even if a client dies later that year, there will be no year-of-death RMD issue, as the distribution was already taken. If the client dies early in the year before it was taken, there will still be time for beneficiaries to deal with the year-of-death RMD.

Once a client is subject to RMDs, the law states that the first dollars of the year withdrawn from the IRA (or plan) are deemed to satisfy the RMD.



Form **5329**

Department of the Treasury
Internal Revenue Service (99)

Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

▶ Attach to Form 1040 or Form 1040NR.

▶ Go to www.irs.gov/Form5329 for instructions and the latest information.

Name of individual subject to additional tax. If married filing jointly, see instructions. | Your so

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return ▶

Home address (number and street), or P.O. box if mail is not delivered to your home

City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions). | If this is return, •

Foreign country name | Foreign province/state/county | Foreign

If you **only** owe the additional 10% tax on early distributions, you may be able to report this tax directly on F Form 1040NR, line 57, without filing Form 5329. See the instructions for Form 1040, line 59, or for Form 1040NR,

Part I **Additional Tax on Early Distributions.** Complete this part if you took a taxable distribution (other t disaster distribution) before you reached age 59½ from a qualified retirement plan (including an IRA) or r contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You m complete this part to indicate that you qualify for an exception to the additional tax on early distributior IRA distributions (see instructions).

1	Early distributions included in income. For Roth IRA distributions, see instructions	1
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions:	2
3	Amount subject to additional tax. Subtract line 2 from line 1	3
4	**Additional tax.** Enter 10% (0.10) of line 3. Include this amount on Form 1040, line 59, or Form 1040NR, line 57	4

If the client does not want to take the RMD until later in the year, other withdrawals must be put on hold until that RMD is satisfied.

For example, if a client is subject to RMDs but wants to do a rollover within the year, they cannot do that until the RMD is withdrawn.

If the client wants to do a Roth conversion, it cannot be done until the RMD amount is satisfied.

RMDs cannot be converted to Roth IRAs because they are considered rollovers, and RMDs are not eligible to be rolled over.

Once the RMD is taken, however, all other IRA funds are available to be rolled over or converted.

'First Dollars Out' Rule

Clients, and even advisors, can often unknowingly violate this "first dollars out" rule when doing a Roth conversion. Why? Because the funds withdrawn and converted to a Roth IRA are taxable, so in the client's mind they paid tax on the funds coming out of their IRA and that's the same outcome as if they withdrew the RMD and didn't convert the funds.

Here's an example: John has a traditional IRA with an RMD of $15,000. He converts $100,000 from the IRA to a Roth IRA, thinking that the first $15,000 withdrawn satisfies his RMD for the year. It doesn't.

What has happened here is that John still owes tax on the full $100,000 because that was withdrawn from his taxable IRA funds. But only $85,000 was eligible to be converted, as the first $15,000 was deemed to be his RMD and that amount cannot be converted or rolled over.

That $15,000 is now an excess Roth IRA contribution and must be removed by Oct. 15 of the year following the year of the excess contribution (along

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TMSIX Class S	18.94	15.48	18.52	10.23	0.72

Call: 800-521-5308	Email: sales@ThriventFunds.com	ThriventFunds.com/Performance

All data represents past performance. Past performance does not guarantee future results. The investment return and principal value of the investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. Visit ThriventFunds.com or call 800-847-4836 to see most recent month-end performance. Investing in a mutual fund involves risks, including the possible loss of principal. The prospectus contains more complete information on the investment objectives, risks, charges and expenses of the fund, which investors should read and consider carefully before investing. Prospectuses are available at ThriventFunds.com or by calling 800-847-4836.

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Fund award methodology: The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five, or 10 years. Sales charges are not taken into consideration. Class S shares for this Fund have no sales charges.

Mid Cap Risks: The Fund primarily invests in securities of mid-sized companies, which often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. The value of the Fund is influenced by factors impacting the overall market, certain asset classes, certain investment styles, and specific issuers. The Fund may incur losses due to investments that do not perform as anticipated by the investment adviser.

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with any income or loss attributable to that $15,000). If that excess is not timely removed, there will be a 6% penalty assessed for each year the excess remains in the Roth IRA.

The 6% penalty is also reported on Form 5329, which must be filed, otherwise the liability continues.

If the RMD were taken earlier in the year, however, that would avoid this tax problem, because the entire remaining IRA balance would then be eligible for conversion.

Or John might think he can take the RMD after he does the Roth conversion. That makes sense to him.

RMDs can present a problem in a 401(k) when your client is subject to RMDs but wants to roll over to an IRA.

For example, let's say John converts $100,000 and then, later in the year, he withdraws his $15,000 RMD. John thinks he's OK because, when all is said and done for the year, he withdrew the correct RMD amount.

But he still has a problem: Only $85,000 of the $100,000 is eligible to be converted, as the $15,000 is deemed to be his RMD.

The other $15,000 that John withdrew after the conversion, thinking he was taking his RMD, is a purely voluntary IRA distribution.

This leaves him with $115,000 of IRA distributions for the year, of which only $85,000 was an eligible Roth conversion, and $30,000 in other IRA distributions, doubling the amount he needed for his RMD.

That unnecessarily doubles his RMD tax bill. However, that extra $15,000, if caught within 60 days, could be converted to a Roth.

It could also be rolled over to another IRA if he hasn't done another 60-day IRA rollover within the past 12 months from any of his other IRAs or Roth IRAs.

Otherwise he would have violated the once-per-year IRA rollover rule and have yet another excess contribution of $15,000 to the IRA receiving the ineligible rollover.

The once-per-year rule does not apply to a Roth conversion, so that would be fine if caught within 60 days of the extra $15,000 IRA distribution.

All of this should give you a good idea of the tax problems that can be avoided by taking the RMD early in the year and getting it out of the way.

Plan an IRA rollover with caution: RMDs can also present a problem in a 401(k) when your client is subject to RMDs but wants to roll their 401(k) balance to an IRA you set up for them.

The RMD must first be withdrawn from the plan before any of the remaining plan funds can be rolled over to an IRA. If the RMD is taken earlier in the year, this will not be a problem, because all the remaining funds in the plan would be eligible to be rolled over.

Sometimes in a rush to get the 401(k)-to-IRA rollover done, the entire plan balance is rolled over, including the RMD.

Again, that creates an excess contribution to the IRA, which must be removed. Once again, taking the RMD earlier in the year removes this potential problem.

Using QCDs

The qualified charitable distribution, which has been a permanent provision of the Tax Code since 2015, allows IRA owners and beneficiaries who are age 70½ or older to do a direct transfer from their IRA to a qualified charity for up to $100,000 per person, per year.

The QCD is still not used nearly enough, and it is one of the most tax-efficient strategies available, even more so after the 2017 tax overhaul raised the standard deduction, resulting in many more clients who will not take an itemized deduction for contributions. Advisors should be looking at this strategy for every eligible IRA client.

The QCD only applies to IRA distributions, not to plans, and it does not apply to donor advised funds or private foundations.

If your client is charitably inclined, the best dollars to give are IRA dollars, and the most tax-friendly way to do this is by using the QCD, because it is excluded from income, helping to keep AGI lower.

The amount transferred goes toward satisfying the RMD.

If this is done early in the year, part or all of the RMD can be satisfied early, thus freeing up the remaining IRA funds for problem-free rollovers or Roth conversions.

Eliminate the Domino Effect

Yes, on the surface it seems that delaying RMDs leaves more IRA income sheltered from taxes.

Taking the RMD earlier in the year, however, can eliminate a domino effect of other expensive tax problems that take a lot of time and effort to correct.

No client wants to experience tax problems, either for themselves or their beneficiaries.

Connect with your clients now to review the best plan for taking annual RMDs. **FP**

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

BLOOMBERG NEWS

Many clients have been surprised to discover they own stock in gun companies, most often via small-cap index funds.

Shooting Down Gun Stocks

Some investors are demanding action on gun manufacturer and retailer stocks. Can financial advisors deliver?

By James Thorne

Several weeks after the mass shooting at Marjory Stoneman Douglas High School in Florida, financial advisor Ed Snyder received an email.

A client had searched Goodbye Gun Stocks, an online database, to see if any of her investment funds included gun manufacturing companies. One of them did.

The client had divested from such stocks several years earlier, and she was upset to learn that a more recent investment had allowed a particular stock back into her portfolio. Snyder, president of Oaktree Financial Advisors in Carmel, Indiana, discovered the root cause was a small-cap fund. He apologized and swapped the fund for a similar investment that did not contain the manufacturer's stock. The experience was unfortunate, but the client thanked Snyder for his quick work.

Surprised

Many investors nationwide have recently discovered they own stock in gun companies — most often via small-cap index funds. Often, like Snyder's client, they have no idea they do. But people who own shares of small-cap index or mutual funds and total-market funds will often own a slice of a firearms company, according to a recent Morningstar analysis.

For most index and mutual fund investors, "these holdings are small," Snyder says, "but they still matter to people."

And while finding a small-cap or total-market fund without gun manufacturers is relatively simple, some investors want to go even further by avoiding retailers, payment companies and other organizations with ties to the gun industry. What they've found is that aligning their investments with their values often requires detailed knowledge of a fund's holdings.

The backlash against gun stocks illustrates a pain point for investors who are unaware of the specifics of their holdings.

Indeed, Citigroup announced recently that it was setting restrictions on gun sales by its business customers. The banking giant will forbid the sale of firearms to customers who have not passed a background check and those who are under the age of 21.

Citi is also banning the sale of bump stocks and high-capacity magazines.

The backlash against gun stocks illustrates a pain point for investors who may feel disconnected from, or unaware of, the specifics of their holdings. However, advisors have the tools to help investors navigate the diverse menu of funds, and portfolios can be crafted to match and engage the principles of individual investors.

Financial Goals and Ethics

Jon Hale, head of sustainability research at Morningstar, says a socially responsible approach can help clients better relate to their investments and remain committed to both their financial goals and personal ethics.

There may also be a downside to failing to act. When events like the Florida shooting "start turning people off," Hale says, "that's not helping clients." If an advisor's clients view their investments negatively, they may be less willing to stay in the markets and less committed over the long term.

In response to the tragedy, Hale released a research report on how to find gun stocks in fund portfolios.

If an advisor's clients view their investments negatively, they may be less willing to stay in the markets.

Since the Florida school shooting, public pressure by investors and consumers against gun manufacturers and retailers has pushed stores, payment service providers and even multitrillion-dollar asset managers to reconsider policies.

Walmart and Dick's Sporting Goods raised the minimum age for buying a firearm to 21. Some payment services, such as Apple Pay, Square and PayPal, don't allow for purchases of guns. *New York Times* columnist Andrew Ross Sorkin has suggested that larger financial firms could join them, thus helping to suppress gun sales.

BlackRock announced that it is exploring "index-based portfolios that exclude just firearms manufacturers and retailers." The statement followed CEO Larry Fink's annual letter to business leaders, in which he urged companies to consider how their societal impact will affect their potential for growth.

A protestor holds up a drawing of Marjory Stoneman Douglas High School shooting victim Meadow Pollack during the Enough! National School Walkout rally in Parkland, Florida.

BLOOMBERG NEWS

Increasing the Pressure

Divestment isn't always the right strategy to advance an investor cause. But in the case of gun manufacturers, Hale says it can be effective.

The three publicly traded firearm manufacturers — American Outdoor Brands, Sturm Ruger and Vista Outdoor — are relatively small. A concerted divestment campaign could apply pressure on the companies' stock prices.

But there are other, much larger companies that support the gun industry. Walmart and Dick's continue to sell firearms and ammo. Amazon and Apple host a television channel for the National Rifle Association. Olin, which owns the historic Winchester brand of ammunition, makes most of its money selling chemicals. Selling the stock of these and other companies is difficult and may have a limited effect. Clients may also incur tax penalties by liquidating their current positions.

Given the limits of divestment, Hale says that a good place for advisors to start is with the funds themselves. "It's definitely a question worth asking any asset manager: What are they doing in terms of shareholder activism?"

"You can initiate engagement instead of sitting on the sidelines," Hale says.

A Winning Strategy

Mitchell Kraus, owner of Capital Intelligence Associates, says finding an asset manager who aligns with his clients' values is a winning strategy.

Kraus recalls one client who came to the firm with several million dollars in holdings and an interest in sustainable investing. One of the portfolio managers who Kraus selected was publicly active in fighting the fossil fuel industry, and the client was thrilled that his investments were part of this manager's efforts.

'Referable Moments'

By specializing in legacy planning and socially responsible investing, Kraus says he adds value for clients. He sees his specialty as an opportunity to create "referable moments" by showing clients how their money has made a difference.

Advisors can also help clients understand their options for becoming involved in shareholder activism, or encouraging their asset manager to do so.

Large index fund providers like BlackRock, Vanguard and State Street have particular leverage, given the trillions of dollars they manage. Morningstar's Hale points out that Vanguard alone owns 8% of Massachusetts-based American Outdoor Brands, formerly Smith & Wesson, which manufactures the AR-15 rifle that was used in the Florida shooting.

In Kraus' community of Santa Monica, California, the chief concern among clients has historically been environmental impact. But other issues have caught investors' attention over the years.

After the shooting at Sandy Hook Elementary School in Newtown, Connecticut, in 2012, "we had a lot more questions from clients" about how their money was being invested, Kraus says.

Flashpoints such as a mass shootings are catalysts for investors to seek out a socially responsible strategy.

Flashpoints such as a mass shootings are catalysts for investors to seek out a socially responsible strategy. However, once an investor has explored the options regarding an issue of personal significance, they typically settle on an investment approach that's broadly in line with their values.

"It's unusual for someone to have a single issue focus once they've done all the research," says Paul Hilton, a portfolio manager at Boston-based Trillium Asset Management. The same can be true for advisors, who realize the best-performing products pursue several environmental, social and governance goals.

Hilton's advice to advisors with clients focused on a single issue is to ask them, "Are there other issues that you also want to incorporate in your approach?"

A holistic approach may come with cost and performance benefits. By selecting index funds with ESG criteria, clients can avoid higher fees from active managers.

ESG holdings may also be part of a risk reduction strategy — a way of avoiding expensive social backlash that companies in certain industries are exposed to.

Advisors often assume that clients will bring up ESG investing if they're interested. Often, Hilton says, clients don't even know what questions to ask.

Present the Options

However, every advisor has at least one client who wants to hear their options. Three-quarters of investors say they're interested in sustainable investing, according to a 2017 survey by Morgan Stanley. Among millennials and women, the figures are even higher.

Hilton argues that as robo advisors and over-the-counter products offer more sophisticated investing solutions, the need for more targeted personal advice is likely to grow.

To get up to speed, Hilton and others recommend that advisors start with the free resources offered by US SIF and Morningstar Sustainability Ratings. US SIF also offers memberships and a credential for advisors who want to go further. **FP**

James Thorne *is a contributing writer for* Financial Planning. *Follow him on Twitter* @jamescthorne.

BLOOMBERG NEWS

Some clients want to avoid retailers and other organizations with ties to the gun industry.

BLOOMBERG NEWS

Irrational Expectations?

Booms and busts both have the potential to create unrealistic outlooks on both ends of the performance spectrum.

By Craig L. Israelsen

Establishing reasonable expectations is a critical part of handling a client's attitude about his or her portfolio.

Ironically, bull markets can provide one of the greatest challenges with this. Indeed, unusually high returns can set expectations that are both unrealistic and unachievable over long time frames.

On the other hand, during periods of poor stock performance, clients can become unduly pessimistic and may abandon their portfolio game plan, often at exactly the wrong time.

For instance, during the exuberant 10-year period from 1989 to 1998, the S&P 500 had an average annualized return of 19.2%. More recently, in the nine-year period from Jan. 1, 2009, through Dec. 31, 2017, the S&P 500 delivered an annualized return of 15.25%.

Does this level of performance represent a reasonable expectation for long-term portfolio performance? No.

The reality is that the average 10-year rolling return of the S&P 500 over the past 48 years has been 10.93% (6.65% after factoring out inflation).

The performance of U.S. stocks from 1989 to 1998 and then from 2009 to 2017 was quite a departure from the longer-term reality.

Sadly, investor expectations of performance can be upwardly mobile — even when such expectations are clearly unrealistic.

Here's the problem: Too-high expectations can lead to performance chasing — and clients late to the game can get burned. Latecomers to the tech boom of the 1990s, for example, got creamed in 2000, 2001 and 2002.

For some investors, missing the upside can be as painful as experiencing the downside.

Unrealistic upside expectations are hard to manage, and clients face a high probability of being disappointed, even if their portfolio delivers what would otherwise be deemed an acceptable level of performance.

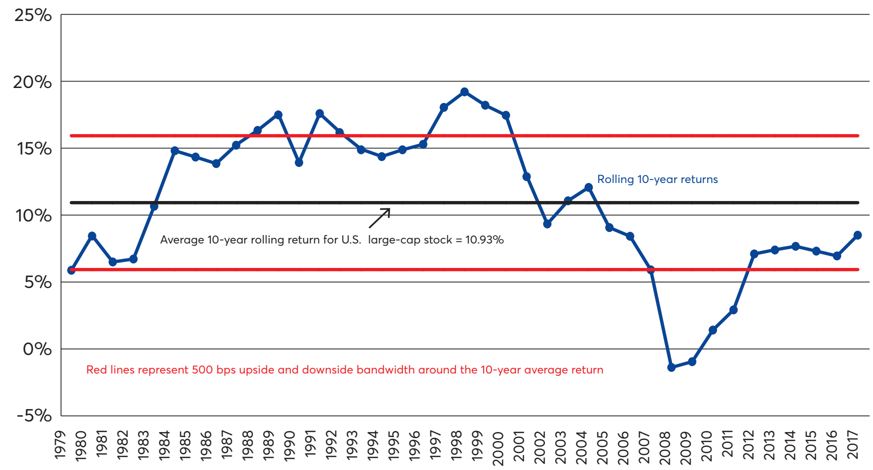
On the other hand, after a messy bear market, it can be difficult for investors to remember that investments actually do produce positive returns over the long term.

What should be considered a reasonable expectation, over time, about returns for a portfolio?

Let's use the 10.93% 10-year rolling return since 1970 as a reasonable return expectation. (Even if you don't feel that figure

Performance of a Large-Cap Portfolio

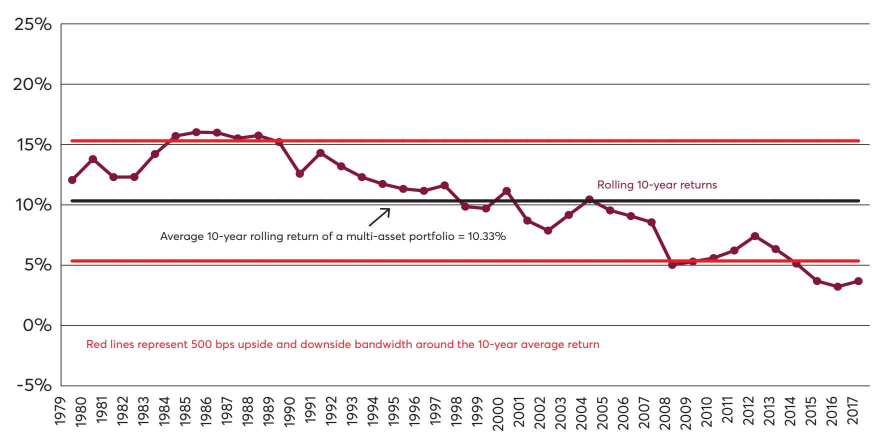
Rolling 10-year annualized returns



Source: Steele Mutual Fund Expert, analysis by Craig L. Israelsen

Performance of a Multi-Asset Portfolio

Rolling 10-year annualized returns



Source: Steele Mutual Fund Expert, analysis by Craig L. Israelsen

represents a reasonable performance expectation, bear with me here.)

Let's now examine how often a 100% large-cap equity investment portfolio has delivered performance close to that reasonable rolling 10-year return of 10.93%. (Obviously, an investment portfolio that consists solely of large-cap U.S. stocks is not well-diversified — more on that later.)

Measuring Performance

To measure this, I imposed upside and downside performance bands of 500 basis points above and below the mean 10-year return of 10.93%. These bands are represented by the red lines in the chart "Performance of a Large-Cap Portfolio."

This created an upside 10-year performance limit of 15.93% (10.93% plus 5%) and a downside 10-year performance limit of 5.93% (10.93% minus 5%).

As shown in the chart, a 100% large-cap stock portfolio was outside the 500 bps limits 36% of the time (14 of the 39 rolling 10-year periods).

In other words, nearly 40% of the time, the large-cap portfolio produced returns that were significantly different from the mean 10-year rolling return.

A diversified portfolio that was rebalanced annually generated a mean 10-year rolling return of 10.33% over the past 48 years.

Downside Volatility

Since 2005, the rolling 10-year returns have been lower than the average 10-year return of 10.93%.

In fact, during the 10-year periods that ended in 2008 and 2009, the rolling 10-year return for the S&P 500 was actually negative.

This is the type of downside performance volatility that can rattle even the most resolute investor.

Now let's consider the rolling 10-year performance of a multi-asset portfolio that includes seven equally weighted portions of large-cap U.S. equity, small-cap U.S. equity, non-U.S. equity, real estate, commodities, U.S. bonds and U.S. cash (see "Performance of a Multi-Asset Portfolio").

Clearly, this represents a more diversified portfolio than simply investing in large-cap U.S. stocks.

A diversified portfolio that was rebalanced annually generated a mean 10-year rolling return of 10.33% over the past 48 years.

But, unlike the 100% stock portfolio, the multi-asset portfolio has delivered more consistent 10-year rolling returns.

In only 28% of the periods (11 of

the 39 rolling 10-year periods) was the 10-year rolling return outside of the 500 bps bandwidth limit.

And when it was outside the limit, the departure was quite minor — on both the upside and downside.

No Negative 10-Year Returns

Unlike the U.S. large-cap portfolio, a multi-asset portfolio never produced a negative rolling 10-year return.

Furthermore, the lowest 10-year return was 3.19% for the period ending in 2016.

Of course, there is a trade-off when building a diversified portfolio.

You'll notice that the multi-asset portfolio never had the 10-year annualized returns near 20% that the 100% large-cap U.S. stock portfolio generated in the late 1990s.

Pain of Missing the Upside

For some investors, missing the upside can be as painful as experiencing the downside — perhaps because their ego is at stake.

This is where client education can, we hope, create the proper expectations. When building a diversified, multi-asset portfolio for a client, it's vital that the advisor inform the client that the performance benchmark is not the S&P 500 — despite the fact that the index is often cited as the "stock market return."

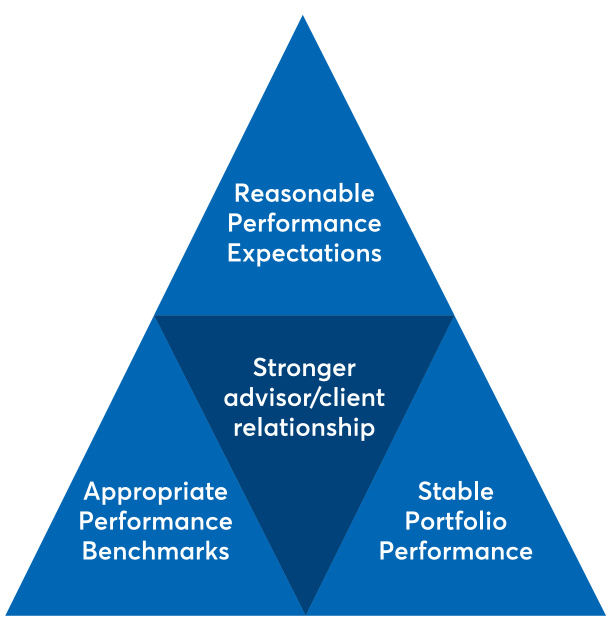
It's vital that the advisor inform the client that the performance benchmark is not the S&P 500.

The S&P 500 is an acceptable benchmark for a client who has a 100% large-cap portfolio.

If the client's portfolio is diversified, however, it's crucial that a more appropriate performance benchmark be identified and be communicated to the client.

Failure to do so creates a situation in which performance expectations become misaligned. In short, if you build a multi-asset portfolio, use a multi-asset model or multi-asset index as the performance benchmark.

The Advisor/Client Relationship



Source: Craig L. Israelsen

To summarize, having a multi-asset investment strategy and the courage to stick with it during up and down markets is a characteristic of successful investors.

Long-term investors learn that portfolios ultimately regress to their mean, particularly as the investment holding period lengthens.

For equity portfolios, that mean return is somewhere around 10% for periods of 20-plus years.

Significant Variation

But, as we have seen, a 100% equity portfolio can experience significant performance variation above and below its mean return over shorter time frames.

It's precisely this variation that can lead otherwise logical clients to engage in unwise behaviors, such as selling low and buying high.

Conversely, portfolios that utilize broad diversification generate returns that are far more stable, and thus consistently closer to the expected mean return. This type of stability is likely to produce a better experience for the client.

As shown in "The Advisor/Client Relationship," when expectations are reasonable, appropriate benchmark indexes have been selected and portfolio performance is less volatile because of broad diversification, the advisor-client relationship can be much less volatile as well. **FP**

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MAY 2018

CE Quiz

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

From: Alphabet Soup No More: Test yourself on These Planning Acronyms (online only)

1. Which of these acronyms represents the official name for Social Security?
1. ARPU
2. OASDI
3. IRMAA
4. QLAC

From: Becoming Deft at DAPTs

2. Which of these states does NOT allow creation of a domestic asset protection trust?
1. New York
2. Alaska
3. South Dakota
4. Nevada

3. Which of these strategies is NOT a way to make DAPTs safer?
1. Have the client sign a solvency affidavit confirming they have adequate resources after the transfer for all their future expenses.
2. Make loans instead of distributions to the settlor.
3. Have the client listed as a current beneficiary of the trust.
4. Give someone in a nonfiduciary capacity the power to direct the trustee to make distributions to the client.

From: Mortgage Interest Pitfalls

4. What amount of home equity debt NOT used for home improvements is tax deductible under the new tax law?
1. $100,000
2. $750,000
3. $0
4. $250,000

5. Which IRS form is used to report the amount of mortgage interest paid each year?
1. IRS Form 9465
2. IRS Form 1098
3. IRS Form 4506-T
4. IRS Form 941

From: It Pays to Take RMDs Early

6. If a year-of-death RMD is missed and the beneficiaries of an IRA do not file Form 5329 for the year of death, what will the permanent penalty be?
1. 25% of the amount of RMD not taken
2. 10% of the amount of RMD not taken
3. 60% of the amount of RMD not taken
4. 50% of the amount of RMD not taken

From: Irrational Expectations?

7. Since 1970, what was the lowest 10-year rolling return for a multi-asset portfolio of seven equally weighted portions of large-cap U.S. equity, small-cap U.S. equity, non-U.S. equity, real estate, commodities, U.S. bonds and U.S. cash?
1. -5.2%
2. 3.19%
3. 1.12%
4. -7.85%

8. During that time, how many times did a 100% large-cap portfolio (S&P 500) have a negative rolling 10-year return?
1. Zero
2. One
3. Two
4. Three

From: Top Mutual Funds to Disclose New Active-Management Metric (online only)

9. What percentage of advisors say that they plan to recommend ETFs more frequently in the next year?
1. 25%
2. 65%
3. 21%
4. 46%

10. How much more per year do active fund fees cost investors than investments in passive products, according to a report by the New York attorney general?
1. 2.5 times per year
2. 5.5 times per year
3. 4.5 times per year
4. 1.5 times per year

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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 subjectA: financial planning process/general principles. The deadline for participation is May 31, 2019.

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 May 31, 2019.

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

Financial Planning

Learning Life's Lessons

Being raised by a single mother and going through two divorces taught this advisor how be be a better planner.

By Loreen Gilbert

From a young age, I understood the pressures of financial hardship.

I remember my mom — who was raising me and my brother as a single mother — would cry because she didn't know how she would put food on the table. She wrote down every penny she spent. Even now, she tracks every penny, every day on a piece of paper.

Through this practice, she taught me that little expenses add up to large dollar amounts, and also that small dollars saved today can add up to large savings over time.

Taking Risks

My mom's experience made me passionate about helping others with their finances — especially women.

This passion later propelled me to take some professional risks. In 1997, when I was 33 years old, I left the wealth management company where I'd worked for seven years to start as an independent financial advisor. I felt there was no career path where I was working, and I wanted to build my own financial independence and success.

With $35,000 in stocks, credit cards as my line of credit and sheer drive, I made the leap. Looking back, I'd advise others to take a more measured approach. Have a business plan in place, find a mentor within the industry and consider a business consultant's advice. But, at the time, I was eager to get started, and I didn't know where to turn for guidance.

I've gone through two divorces in my life, which meant I had to start over financially twice. It has not been easy, but those experiences have further cemented my passion to help women avoid financial pitfalls.

For instance, I did not understand that by selling my home and combining assets with someone else, I was putting my financial security at risk.

I did not understand that by putting my spouse's career above my own, I was compromising my own Social Security benefits.

It's been a bumpy road, but also an incredibly satisfying journey. The secret? Hard work, learning from other respected professionals and a relentless drive to help others by giving back.

I encourage other advisors to consider how they can give back. Find a cause about which you're passionate. By being engaged in philanthropy, I stay grounded, I stay humbled and I stay grateful.

With $35,000 in stocks, credit cards as my line of credit and sheer drive, I made the leap. Now, looking back, I'd advise others to take a more measured approach.

In addition, I have met some of my best clients through philanthropic endeavors. And while I have not pursued philanthropy in order to gain clients, I find that in pursuing my own passions, I find like-minded individuals.

By learning life's lessons from my own mistakes and by modeling after other entrepreneurs, I've become a better business owner, a better advisor and a better advocate for other women.

My advice to all aspiring entrepreneurs, not just women, is this: reach out to others who have trail blazed their own path and somehow accomplished their dreams. And when you arrive, don't forget to pay it forward. **FP**

***Loreen Gilbert** is the founder and president of WealthWise Financial Services in Irvine, California. Follow her on Twitter at @realloreeng.*

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

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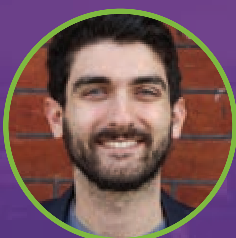

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DREAM FORWARD

In|Vest is known for

bringing together the incumbents and the challengers in the wealth management ecosystem, and the 2018 event is shaping up to be the most important gathering to date. Here's a sneak-peak at some of the startup CEOs we'll have on the agenda.

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MELONPORT AG

Matt Fellowes
Chief Executive Officer
UNITED INCOME

First Up –
The Challengers

Catherine Flax
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