SECRET TRIPS TO RAYMOND JAMES: P. 32

Financial Planning

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WAR OF RETENTION

Firms compete aggressively to recruit advisors like Martin von Känel. The challenge: Keeping them

JULY 2019

Financial Planning

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Martin von Känel returned to LPL Financial after almost 20 years, in part because of enthusiasm he saw at the IBD.

COVER PHOTO AND PHOTO RIGHT BY PATRICK STRATTNER

Columns

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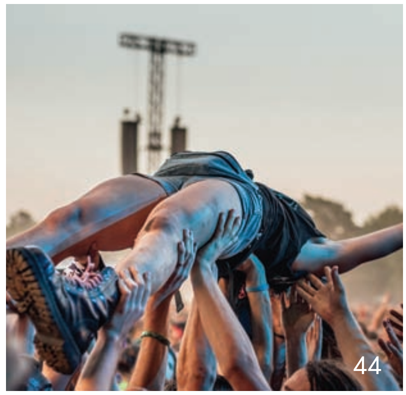

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[1]*WealthManagement.com's 2017 Independent Broker-Dealer Report Card published April 2017.*
[2]*WealthManagement.com's 2018 Industry Awards announced September 2018.* [3]*Investment Advisor Magazine's Broker-Dealer of the Year Poll published 2017.*
[4]*Financial Planning's FP50 List of Top Independent Broker-Dealers published 2016.* [5]*InvestmentNews Research published April 2019.*

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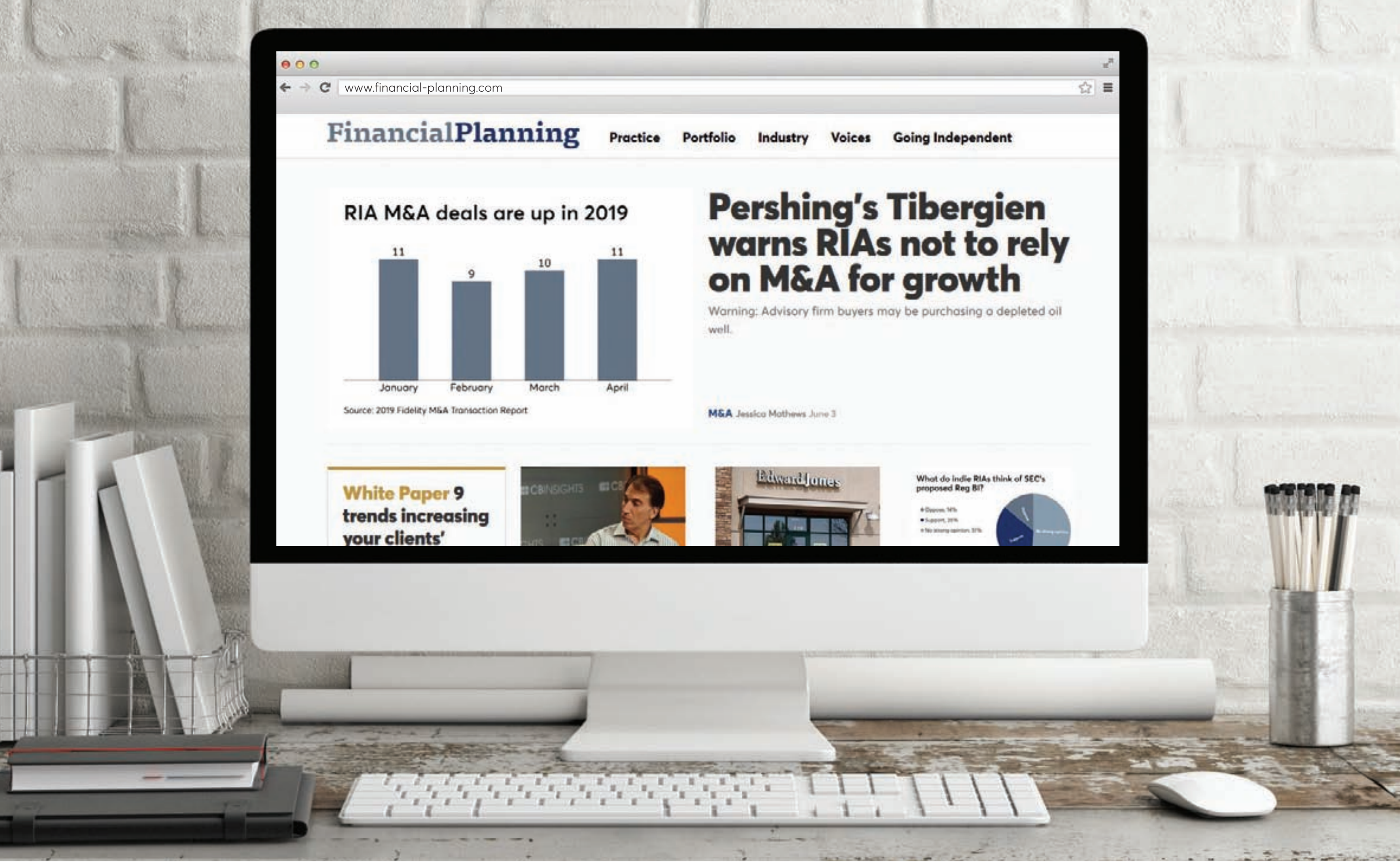
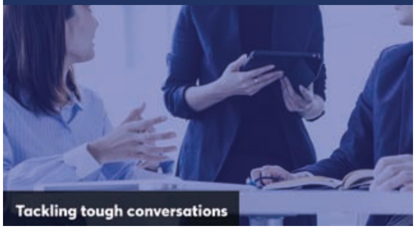


WEB SPECIAL



Setting the Right Tone

When clients walk in the door with minimal financial literacy, it's an advisor's job to steer them in the right direction. Well-meaning planners who tell their clients to "calm down" are not likely to get the result they want. How should advisors set the right tone? Find out: https://bit.ly/2JRhKx7

GUIDE TO GROWTH

Upgrade Your Apps

Firms are trying to keep up with clients' demand for convenient, functional portals, but advisors are still falling behind. Wealth management ranks lowest in overall mobile app satisfaction by consumers, according to industry research. Disruption is needed. Read more: https://bit.ly/2wyChO3

EVENTS

July 16-17
In|Vest Conference
New York City
https://bit.ly/2GeAZi3

September 8-11
XYPN Live
St. Louis
https://bit.ly/2JVTj1A

October 1-4
NAPFA Fall National Conference
Chicago
https://bit.ly/2s29nFD

October 16-18
FPA Annual Conference
Minneapolis
https://bit.ly/2rzKz6Y

Financial Planning

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Editor's View

Recruit, Then Retain

What are you doing to keep top talent? It might not be enough.

In my conversations with advisors and firm owners over the past year, I've heard a repeated lament: There is too much competition for top talent. Rivals are snapping up the strongest candidates, offering more money or more flexibility. Sometimes firms lose out because too slow to make an offer.

"Advisors may still be getting phone calls from competitors long after they've made a career move," says associate editor Jessica Mathews, who wrote *Financial Planning's* main feature, "War of Retention." She adds: "Firms need to realize that they are competing for advisors every day. It's not a one-time sales pitch."

Raymond James has learned this lesson well. The firm lures top talent with home office visits designed to showcase its corporate culture and resources. Costing the company upward of $2,000 per advisor, the visits take prospects on tours of various departments and arrange meetings with executives. It's worth it, the firm tells senior editor Andrew Welsch.

"Our job is to connect an advisor with everything Raymond James has to offer," Senior Vice President Frank McAleer says in Welsch's piece, "Secret Trips to Raymond James?"

Connection is vital, Mathews tells me. In the battle for talent, firms must offer more than a strong compensation package. Michelle Cortes-Harkins and Rick Harkins, who were recruited away from LPL Financial, told Mathews they wanted a company that led the conversation with whether it was a good fit for their clients.

Perhaps the most important point: Successful recruiting efforts can't stop when new hires show up. "Are you gauging employee satisfaction or assuming it?" Mathews says. "Firms should pick up the phone, call up their advisors and listen. Ask employees what's missing before trying to hire new ones."

—Chelsea Emery

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Retirement Advisor Confidence Index

Spooked by Trade War, Volatility

Fearful clients are contributing less to their retirement plans even while advisors urge them to stay the course.

By Kenneth Corbin

Clients are turning away from equities and channeling less money into their retirement plans as their appetite for risk plunges, according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers.

"A few clients have expressed increasing concern over how the changing events in the world may affect the future returns from their investments," one advisor says.

"Continued geopolitical and trade tensions caused many business owners to be cautious about expanding retirement plans," another advisor says. "Our outlook is still cautiously optimistic longer term."

But in the short term, investors' risk tolerance plunged nearly 19 points, the biggest single-month drop since February 2018, according to the most recent RACI survey.

The component of the retirement index that tracks risk tolerance checked in at 42, the lowest mark since December, when risk tolerance fell to 25 amid a substantial market correction. RACI scores higher than 50 indicate an increase, while scores below that mark signify a decline.

Several advisors cite the ongoing trade hostilities between the U.S. and China as a specific agitating factor for clients.

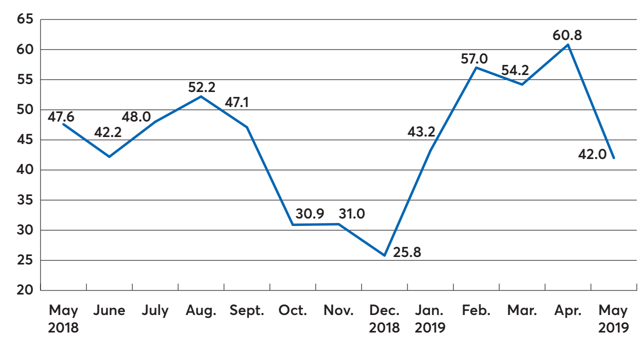
"China turmoil has us a little more cautious about the market," one retirement planner says. "I feel the biggest issue right now is the seemingly escalating tariff situation with China," says another.

In all, concerns over market volatility and the fallout from trade wars sent investor confidence down, with a composite RACI score of 50.1, off five points from the previous month and the lowest score since December. Throughout 2019, investor confidence has been volatile, with no two-month stretch recording either consistent increases or decreases.

But the most recent month showed a pronounced downtick, both in overall confidence and specific asset movements. The RACI component that tracks equity spending tumbled 10.7 points to 54.1, the largest single drop since October 2018.

Spending on target-date funds was down as well, off 3.9

RISK TOLERANCE



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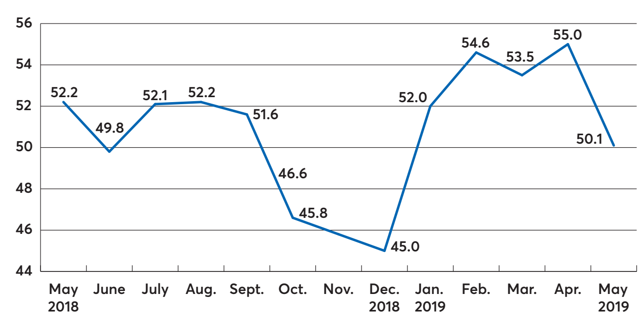
RETIREMENT ADVISOR CONFIDENCE INDEX



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.*

points to post a score of 46.1.

Overall, the dollar amount that clients contributed to their retirement plans in any form fell 8.9 points to 55.2, the lowest score of the year and the biggest monthly drop since May 2018.

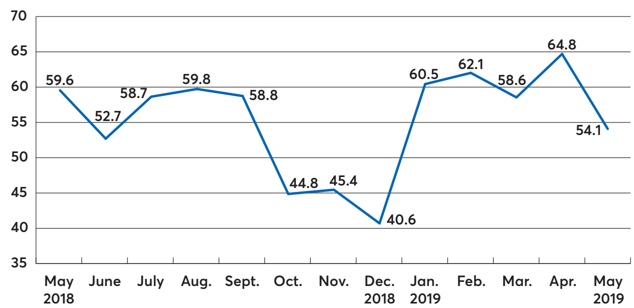
Advisors can struggle to keep clients calm when the markets are in flux.

"More plan participants are nervous as volatility picks up," one advisor says. "We emphasize to continue contributions and take advantage of the volatility and think long term."

Many advisors say they ask clients to ignore the headlines. One advisor urges clients whose retirement is still far off to avoid focusing on short-term market jitters.

"Many people take the current economic news cycle into account when investing for retirement," the advisor says. "They should not be doing so unless they are close in age." **FP**

CLIENT ASSETS USED TO PURCHASE EQUITIES



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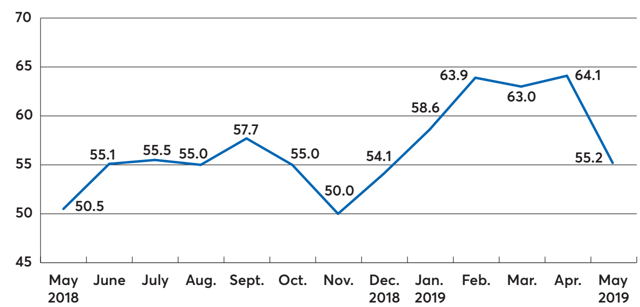
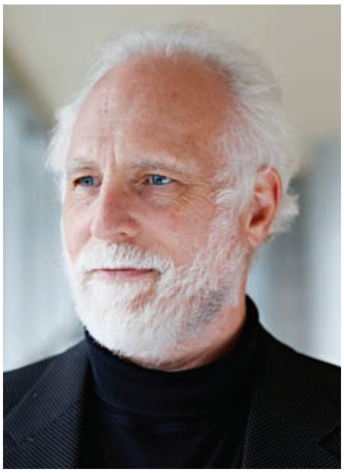
ALL CONTRIBUTIONS TO RETIREMENT PLANS



Source: SourceMedia Research

Kenneth Corbin is a Financial Planning *contributing writer in Boston and Washington. Follow him on Twitter at @kecorb.*

Veres



Get Students into Planning

Advisors can help elevate the financial advisory profession by focusing attention on high schools and colleges.

By Bob Veres

Up to now, the planning industry has largely been populated by career changers. But if it is to grow, that has to change. Without intending to slight highly skilled workers in countless industries, true professions, as I see it, are made up of people who have graduated from a specific college curriculum, like doctors or attorneys.

According to *Financial Planning* research, 102 U.S. colleges and universities now offer CFP Board-registered degree programs. These schools still face significant challenges recruiting students to an obscure major, obtaining adequate funding and positioning themselves in the traditional university structure. I reached out to leading members of the college community to ask how we can help them address these challenges. The responses fell into three broad categories.

Raise Awareness

One of the biggest stumbling blocks in recruiting students is a general lack of awareness of how the profession has changed from its "smile-and-dial" roots of the 1980s, says Ruth Lytton, director of the financial planning program at Virginia Tech. "Every year we lose students to the overwhelming opinion that financial planning is all sales," she says. Her solution: Help students understand a "day in your life" and know why you do what you do.

Start by engaging high school guidance counselors in your area, suggests Caleb Brown, a CFP at New Planner Recruiting and teacher of the capstone class at the University of Georgia. "They wield lots of influence over graduating seniors' area of study selection, and right now, most of them are not clear on what real financial planning is," he says.

Some points that will help you make your case: Many planning students have full-time jobs lined up before graduation. A planning degree opens pathways not only to being a client advisor, but also to working in technology, consulting and recruiting firms.

Planning provides many things students look for in a long-term career, says Luke Dean, associate professor of personal financial planning at Utah Valley University. Among them: a chance to help people and have a positive impact in their communities, a high income, work flexibility and a job that will be mentally stimulating for 40 years. Plus, Dean says, according to the Bureau of Labor Statistics, planning is the fastest growing occupation in the accounting and finance fields.

Go a step further, suggests Ron Rhoades, director of the financial planning program at Western Kentucky University. Ask your local high school counselors to identify students who have an aptitude for counseling and an interest in investments.

You could also invite students to attend an FPA chapter meeting, NAPFA study group meeting or CFA society meeting. "If a local university has a PFP event, or FPA student chapter meeting, sponsor high school students to attend those," Rhoades adds. "The students will take back to their schools their newfound interest in personal financial advice as a potential career and the word will spread."

Vickie Hampton, who heads the personal financial planning program at Texas

Tech, notes that her school is now managing a money camp for high school students called the Financial Planning Academy, supported by the Charles Schwab Foundation. The camps will be held at three sites this year and five next year. You can offer to sponsor a few students to attend.

College planning programs are playing catch-up in funding. Collaborative contributions can have a big impact.

Of course, university programs also recruit students who are already on campus. Rhoades says it can help if you organize an on-campus panel discussion about planning careers, in coordination with the finance department. "The more interactions between students and practitioners, the greater those experiences are shared with students in other majors, which leads to transfers into the program," he says

Recruit Competitively

Right now, wirehouse programs and call centers outrecruit independent planning firms on campus. "Small business owners have not developed the recruiting scale to compete with Wall Street or Big 4 accounting jobs, or built a presence on campus to develop a talent pipeline," Lytton says. Her solution: Find CFP Board-registered university programs on the CFP Board website and contact the program director at your chosen school.

This will open the door for campus visits and build a pipeline for internship and position placements. You'll be able to interact with students before they do those wirehouse interviews.

Providing $500-plus to help a student attend a national conference is a relatively low cost and high value type of support, Hampton adds.

For about the same price, she says, you could also offer a scholarship to pay for the CFP exam and/or a CFP review course for a student. "And if a person wants to donate money directly to a college program, unrestricted educational funds are the most valuable," Hampton adds.

Support the Programs

Based on the feedback I got, planning programs are playing catch-up in funding. "Traditional business disciplines are grounded in named, endowed professorships that support the recruitment and retention of the best faculty," Lytton says. "Financial planning needs the same support to leverage and ensure the future of the curriculum, especially in larger colleges of business where financial planning may not compete well with the traditional big business focus."

If you and other members of your local chapter or study group were to make a collaborative contribution, and others were to contribute to these endowments, it would allow programs to hire additional faculty to support program excellence. "But, more importantly, it will start to change the perception and even the playing field with more established business disciplines," Lytton says.

Rhoades suggests that you help your chosen university create a class in personal finance for freshmen as a general education elective, if one does not exist. "You can work with the program director to propose the course," he says — and bring with you with a large number of letters of support from practitioners. If you have a master's degree, consider teaching the course as an adjunct.

Brown urges advisors to return to their alma maters to speak in general business classes and other majors about a career in planning. You can also to sit in on a capstone class to help assess student projects and presentations, conduct mock interviews and review resumes, Hampton says.

At universities without planning programs, you can help set the stage for one. Hampton notes that "because many university administrators are not knowledgeable about financial planning and the great career opportunities it provides, it is often difficult to get support for new programs. For advisors and others who have access to university deans, department chairs, etc., make a point to talk with them about the financial planning profession and the need for young advisors." Universities will need to start planning programs to keep up with changes in the job market.

Brown says your best venue for building influence is to participate in the alumni association to encourage the administration to establish or strengthen a planning program. "Higher education institutions are much more receptive to ideas if/when they know that alums might reduce or cease donating funds altogether," he says.

The sheer magnitude of this task is daunting: We are talking about nothing less than building up an entirely new university curriculum to the status of accounting, general finance, law and medicine, and also educating the public about its existence. The jobs are there, and they're highly desirable. We just need to get the word out and mobilize across the profession. **FP**

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

Boomer

Why I Bristle When People Say, 'I Don't See Color'

How to solve the planning industry's diversity problem.

By Allan Boomer

I lead an unusually diverse RIA.

Our advisors and staff speak four languages. Half of our senior leadership is composed of black women. At age 42, I'm the oldest person at the firm. And we have doubled our AUM each year over the past three years.

I think I'm fairly well positioned to answer the following question: Does diversity matter in financial services?

This is a critical query and the answer is clear: I don't believe organizations can begin to make changes unless there is a business imperative.

Diverse organizations make better decisions. Certainly, there is a wealth of research that underlines this point.

A McKinsey report, for example, found that companies with more culturally and ethnically diverse executive teams were 33% more likely to see better-than-average profits. And a Credit Suisse report found that companies where women make up half of senior managers produced 10% higher cash flow returns on investment than the MSCI ACWI.

Women and minorities are an underutilized talent pool in our industry.

If you believe that talent in the world is evenly distributed but opportunity is not, it's apparent that an industry that lacks diversity is missing a lot of talented people.

One could also argue a few stereotypical points that are not strongly backed by research. For example, that women are better listeners than men. And that minorities, and people who come from less-wealthy backgrounds, often possess a high degree of hunger, drive and determination.

I recently led a panel discussion about diversity. I agreed with many of the points that came up, including the premise that our profession could benefit from more women and minority representation. But I cringed at another topic: Clients want to work with advisors who look like them.

Seventeen years ago, when I was just getting started as an advisor, I interviewed with a team where a white advisor said to me, "On our team you can go after the black clients and I can go after the white ones."

My client book is a rainbow of young and old; white and black and other ethnicities; and men and women.

Had I followed that logic, I wouldn't be in business today. I am not saying that black clients are a bad target market. I am saying that not all clients use race as the primary factor when choosing an advisor.

My client book is a beautiful rainbow of young and old; white, black and other ethnicities; and men and women. Clients have gravitated toward me — and my firm — because our personalities and values mesh. And because we are adept at understanding their needs and helping them to express themselves with their money.

Barriers to Diversity

There is some great research on this topic from the CFP institute. Among the barriers they've identified are a lack of awareness of financial planning as a career path and the misperception that advisors must come from wealthy backgrounds.

But there is another glaring problem. Many

"I lead a diverse RIA," says Allan Boomer of Momentum Advisors. His team: (l. to r.): Will Platt, Earl Carr, Kyle Pitts, Yan Chen, Boomer, Tiffany Hawkins, Chadwick Roberson and Tiffany McGhee.

THOMAS WOODS/VISUAL CLEANSE

financial services firms are not welcoming of women and minorities. Imagine you are attending a social event or a conference where no one looked or acted like you.

Would you feel comfortable?

Organizations that are diverse are more welcoming to diverse people. I am a firm believer that businesses are adept at solving problems that they want to solve. And I believe advisors are among the most resourceful and inventive professionals in terms of recruiting a target market. I posed this question to the Investment Forum group: If you wanted to land professional athletes as clients, what are some of the things you would do? I found framing the question this way led to easy answers:

1. Build relationships with intermediaries. In this case, agents and coaches.
2. Start early and build relationships while potential clients are in college.
3. Take a genuine interest in the news and issues that impact this group of people.
4. Find organizations where they gather, such as players associations.
5. Befriend an athlete and ask for advice.

These steps can also be taken toward the goal of recruiting a diverse cohort of advisors. There are organizations out there including Quad-A, the Association of African-American Financial Advisors. Why not sponsor and attend one of their conferences? (They have one coming up in Detroit in September).

Mentor a college student or young professional. This is a great way to give back while also achieving your recruitment mission. As a mentor, you not only get the fulfillment of helping someone, you also get the opportunity to discover if your mentee might one day be a good fit for employment. Also, mentorship creates immense loyalty.

Take a look at your Facebook friends. Have you unfriended people who don't share your political or social views?

Do you have a genuine interest in the issues that impact people who don't look like you?

One way to check is to take a look at your Facebook friends. Have you unfriended people who don't share your political or social views? In my lifetime, the country has never seemed more divided in terms of race. Unless we can have conversations and maintain relationships and friendships across racial lines, we will never solve the diversity issue. Don't stop at diverse hiring I bristle every time I hear someone say "I don't see color."

Seeing Color

People of color want to be seen. We want you to recognize that our differences bring value and substance to the table.

Our backgrounds and different ways of thinking can be assets for your team.

These cultural differences should be celebrated and not overlooked. When someone feels like an interloper or outsider, they will constantly have their guard up.

They will not be comfortable enough to bring their full selves to work. They will not be fully engaged at work — and will ultimately walk out the door.

An environment of equity and inclusion helps everyone on the team feel they belong.

It creates a sense of joint ownership that makes people care more about their work and work harder. This type of culture can create a virtuous cycle of success at your firm. **FP**

__Allan Boomer__ is the managing partner and chief investment officer of Momentum Advisors in New York City. He co-hosts a weekly radio show on SiriusXM Ch. 126, which focuses on wealth building and entrepreneurship. Follow him on Twitter @MomentumAdvice.

Ready for IPO Millionaires?

My firm has a blueprint to attract and retain newly rich clients hungry for financial and emotional coping skills.

By Kimberly Foss

I spoke to a CPA friend recently with a number of clients who were Uber employees, newly rich from the firm's IPO.

"Many of them are in their late 20s or early 30s," she told me. "They've never had money before, and they have no idea which way to turn first. They know this payday is coming with a huge responsibility attached. They don't want to blow it, but they don't know what to prioritize. They are looking for help."

It's a high-quality problem, but a problem nonetheless. Reuters estimates the 2012 Facebook IPO produced thousands of new millionaires. Could this latest round of initial offerings create many more?

Remember, we're not just talking about founders and CEOs: Key employees, department and product managers, while not expecting billion-dollar payouts, are probably looking at becoming instant millionaires. These newly high-net-worth individuals will hail not just from Silicon Valley but from tech hubs centered on Austin, Texas; Dallas; Raleigh-Durham, North Carolina; Phoenix; and Washington, D.C.

What is your firm doing to prepare itself to attract and retain members of this newly affluent demographic?

Make no mistake: your competitors and others are targeting them. As *The Wall Street Journal* reports, these "soon-to-be-enriched employees are being inundated by high-end sales pitches."

Marketers of luxury services such as yacht rentals, heli-skiing and high-end real estate are already calling, emailing and otherwise wooing the likely recipients of IPO riches. For those unaccustomed to the attentions of such purveyors of luxury, these invitations can be both flattering and seductive.

My firm's plan is to reach out to this demographic using CPA referrals, targeted social media initiatives and other efforts geared to projecting that we understand, and can help them cope with, their opportunity and the uncertainties surrounding it.

We'll make use of technology — specifically our eMoney platform — to offer simulations, demonstrations and information sessions about how our services can provide answers to some of the what-ifs they will be facing.

A firm needs to figure out how to reach new millionaires and how to offer both technical and emotional service.

We'll help them understand the technicalities of lockup periods, stock options, restricted stock units and other factors related to their firms' IPOs.

We will also explain how our full suite of advisor services leverages technology to stay abreast of the markets while considering the unique needs, goals and dreams of individual clients.

In addition, we will provide legal and tax referrals to ensure they have access to expertise for their evolving estate planning and philanthropic objectives, as well as information on the capital gains implications of their company equity.

But, most important, we will offer clients the emotional tools they'll need to deal with the decisions and responsibilities that accompany greater wealth. As word of their new affluence gets out, they will be receiving pleas for financial assistance from family, friends and others. They'll be in the crosshairs of nonprofit organizations searching for donations.

For some who attain sudden affluence, their new status will be bewildering, intimidating and guilt-inducing.

It will be bewildering, intimidating and often guilt-inducing. Not long ago I was working with a younger client who found himself in a similar position. Though his windfall was the result of an unexpected inheritance, he shared with me that he felt completely unable to enjoy his new affluence.

"I don't even know who I am anymore," he told me. "I've suddenly got all these people calling me, asking for money. I don't know what to say to them."

He wasn't sure he had the right to refuse any request; after all, the money didn't even feel like it belonged to him, he said.

We helped my client turn the corner on his feelings of anxiety and guilt by helping him to establish his priorities and zero in on what was most important to him: providing for his children's future, giving back to the less fortunate and securing a financial foundation for his immediate family.

Uber CEO Dara Khosrowshahi speaks at the New York Stock Exchange during the company's first day of trading in May.

BLOOMBERG NEWS

It then became much easier for him to make judgments and prioritize, not only about the continuing requests for financial help, but also with regard to his ongoing use of his new wealth.

"Now that I know where I want to go," he said later, "it's much easier to see which choices will keep me headed in the right direction."

That knowledge should be our goal with every client, and it certainly applies to the new IPO millionaires who are finding riches in coming months.

If we can use language they already understand to position ourselves as reliable guides, we will be doing what is right for our firms, for our new clients and for society as a whole. **FP**

Pinterest signage outside the New York Stock Exchange during the company's initial public offering in April.

BLOOMBERG NEWS

***Kimberly Foss,** CFP, CPWA, is a* Financial Planning *columnist and the founder and president of Empyrion Wealth Management in Roseville, California, and New York. Follow her on Twitter at @KimberlyFossCFP.*

Finding a Fund Sweet Spot

Years of trial and error, research and client-facing education resulted in a portfolio mix of Vanguard and DFA offerings.

By Dave Grant

My attempts to keep clients' overall investing costs low, while also making sure they're appropriately diversified, has been quite a journey.

It has taken me six years of trials, errors and research, but I think I've finally found the formula.

When I started my financial planning practice back in 2013, I faced a distinct difficulty: I didn't meet the minimums of any custodian. I was coming from another firm and bringing only two clients, who were going to pay a planning-only fee. If I wanted to use a recognized custodian, I needed anywhere from $5 million to $25 million.

Coming from an AUM structure, I wanted to provide clients with investment advice that mirrored the investment philosophy that I had been taught.

In not being able to manage their investments directly, I had to teach them how to invest on their own. Initially, I encouraged clients to use ETFs, but I regularly received questions about how to adjust purchases if share prices changed, or whether bid-ask spreads were something to be concerned about.

To simplify the process, I suggested that clients use passive-approach mutual funds, mostly with Vanguard. In this way I could advise them on dollar amounts to invest, and, as long as they were over the investment minimum, things went smoothly.

But, as trading and ongoing expenses started rising, issues popped up if clients had accounts with Fidelity or Charles Schwab. In response, I adjusted the approach and used index funds that were native to that particular custodian.

A Variety of Portfolios

Over time, these models became cumbersome as well since I had various portfolios models for various custodians. If a client used multiple accounts across multiple custodians, my investment recommendations rarely looked simple.

In the summer of 2016, I joined the XY Planning Network and received access to TD Ameritrade without the need for a minimum asset base. With access to a custodian and the ability to manage client accounts directly, my investment recommendations started to adjust back to a simpler and more holistic design.

The evolution of an approach based on low costs, diversification and passive versus active investing.

Even so, I monitored client portfolios to make sure they controlled costs and kept taxes as low as possible. The simple question: Were investments as low cost and tax-efficient as they could be, while staying globally diversified?

Trading Costs

One red flag was trading costs on mutual funds. Each time I bought and sold a Vanguard mutual fund on the TDA platform, it cost a client $24.

It also bothered me that even in years of mediocre performance, my clients might be paying short- and long-term capital gains taxes because of activity inside the mutual fund itself.

This led me to research ETF alternatives for these specific mutual funds.

Vanguard has designed its ETFs to be a sub-share of its mutual fund partner. This made it fairly easy to know what index the ETF would be following, and I could reassure myself that it was not wildly different from the mutual fund alternative.

My clients like "boring and simple" because that's how I sell my investing philosophy, but they also trust me to educate them on any changes.

It helped that the ETFs — even though they mirrored the investments of the corresponding mutual fund — had a lower expense ratio.

Additionally, trading these ETFs on the TD Ameritrade platform was then free for Vanguard ETFs (the price has now increased to $6.95 per trade), so I was keeping the same investments for clients while decreasing their costs and taxable consequences.

Way back in 2007, I was introduced to Dimensional Fund Advisors. I learned how its strategy differed from a standard passive index fund and how it could add value to a portfolio.

When I changed firms and then subsequently launched my own RIA, I missed being able to use DFA's funds just the way that I could a regular fund company.

Fast forward to 2018. At a conference, I went through DFA's advisor training to be able to use its mutual funds and be a DFA-approved advisor. But despite understanding and agreeing with many of the firm's philosophies, I still used Vanguard ETFs for most positions. I believed there had to be some arbitrage between some Vanguard ETFs and its DFA mutual fund competitor.

Combining Two Fund Families

That led me to look at long-term characteristics between asset classes, comparing Vanguard ETFs with DFA mutual funds.

I decided that I would either have a Vanguard ETF as my main investment, with the DFA alternative being the backup in specific investment situations. Or, if the DFA fund was more favorable after I had done the research, then vice versa.

BLOOMBERG NEWS

ETFs that mirror the investments of the corresponding mutual fund typically have a lower expense ratio.

Through my research, I found only a couple of classes in which I was comfortable having a DFA fund as the front-runner. These classes were global real estate and categories where pricing and performance arbitrage is more prevalent: emerging markets debt and equity.

I found it hard to justify bringing in a strategic investment approach for U.S. equity allocations given how open and efficient our markets are.

Even though long-term performance numbers were painted as beating the respective index, I factored in explaining the investments to my clients.

My clients like "boring and simple" because that's how I sell my investing philosophy, but they also trust me to educate them on any changes.

I led the conversation by letting clients know their portfolios would be changing slightly and then described the process that led to the decision.

Going through the DFA process had taken most of 2018, and I let my clients know about the calls and conferences in which I had participated in bringing this new fund family to their portfolios.

I explained the differences between Vanguard and DFA, and while some didn't have many questions, others were excited about adding DFA's approach to their investments.

Now my client portfolios have a mixture of Vanguard ETFs — clients get excited when they see their investments are almost free — and a smattering of DFA funds where it makes sense from an allocation and tax perspective.

I'll never stray from the passive investing approach, especially given how cheap ETFs are to use, and my clients have frequently thanked me. **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.*

ALSO IN RIA IQ: A DEBIT CARD FOR CLIENTS? P. 24


The CFP Board's new guidance cautions advisors who charge hourly fees to be mindful of the potential to overbill.

ADOBE STOCK

CFP Board Tightens Rules

When the board's new code and standards take effect, fee-only advisors will be expected to step up compliance operations.

By Kenneth Corbin

When its new standards of conduct take effect in October, the CFP Board is expecting fee-only advisors to abide by a more rigorous framework for disclosing and managing conflicts of interest.

To be sure, the CFP Board already holds advisors to a fiduciary standard, and it acknowledges that many of the provisions for fee-only advisors will remain consistent when the new standards take effect.

A 'Milestone Event'

Nevertheless, the board is billing the enactment of its new standards as a "milestone event" that will usher in a more expansive set of fiduciary responsibilities for advisors who hold the CFP credential.

Easing the Transition

To help ease the transition, the board has been holding numerous outreach events, and it has published guidance to help fee-only advisors interpret how the new standards will affect both their practice and their compliance programs.

The new standards aim to provide greater detail and clarity around compensation models.

They stipulate, for instance, that CFP holders may only describe their practice as fee-only if their firm and related parties don't receive any form of sales-related compensation in connection with the advisory services they provide to clients.

The standards require that CFPs act as fiduciaries at all times when providing advice to clients.

The CFP Board also encourages advisors to closely consult its standards for the definitions of operative terms such as "sales-related compensation," which it defines as including both commissions and other incentive-driven compensation.

CFP Board CEO Kevin Keller hails the new standards as an effort to elevate the conduct of all CFP holders, who work in a variety of business models subject to varying federal and state regulations.

Acting as Fiduciary

"The cornerstone of the new code and standards is the requirement that all CFP professionals act as a fiduciary at all times when providing financial advice to a client," Keller said in a statement. "At the same time, the new code and standards have specific

CFP Board CEO Kevin Keller hails the new standards as an effort to elevate all CFP holders.

implications for fee-only CFP professionals. This new document provides them the guidance they need to work on a fee-only basis and stay true to the new rules."

Fee-only advisors are sometimes seen as operating with less of a structural conflict of interest than brokers or other advisors who earn commissions, which can vary from one product to another.

In that model, the advisor might have the incentive to engage in excessive trading activity or favor a specific investment vehicle that will net the largest commission or fee.

No Such Thing as Conflict-Free

But the CFP Board notes that no business model is conflict-free, and fee-only advisors have a specific set of conflicts that they must disclose and manage under the new guidelines.

Compensation Clashes

For instance, when an advisor receives compensation based on a percentage of assets under management, the CFP Board observes that the interests of the CFP and their client are at odds when the client is considering moving money to investments the advisor doesn't manage, or drawing down on advisory accounts to pay down debt.

The new document provides guidance on how planners should work on a fee-only basis.

In both cases, Keller says, "the financial advice may reduce the value of assets under management, and thus, the fee that the CFP professional earns for providing financial advice," creating a conflict that the advisor must manage and disclose.

Likewise, the board's new guidance cautions advisors who charge hourly fees to be mindful of the potential to overbill in these cases.

"The CFP professional needs to exercise due care in determining the amount of time necessary to complete the work and charge the client only for the time spent providing professional services," the guidance states.

Defining 'Professional Services'

"Professional services" is another term the board recommends that planners consult with its standards.

Professional services in this case is defined as financial advice and services for clients that include financial planning, legal, accounting or business planning services.

The guidance also offers some basic clarifications about when the fiduciary duty will be triggered for all CFPs under the new standards.

As a starting point, the CFP Board offers a checklist outlining what activities will constitute financial advice, the fiduciary threshold under the standards.

So generic marketing materials and basic client education materials would not rise to the level of financial advice, but any communication that "would reasonably be viewed as a recommendation that the client" take a certain financial action would.

"The more individually tailored the communication is to the client," the board writes, "the more likely the communication will be viewed as financial advice." **FP**

Kenneth Corbin *is a* Financial Planning *contributing writer in Boston and Washington. Follow him on Twitter at @kecorb.*

A Debit Card for Clients?

Firms look to attract client cash from Wall Street institutions by offering services that cover banking and investing needs.

By Sean Allocca

Debit cards, high-yield savings accounts — even access to ATMs.

Independent advisory firms are beginning to look a lot like their Wall Street counterparts, offering a buffet of services that cover banking and investing needs, from checking and savings to brokerage accounts.

The recent moves by some of the biggest RIA firms are intended to help cross-sell products to existing customers and keep more client wallet share on their platforms.

Carson Wealth, for instance, is one of the first big advisory firms to offer checking accounts with direct deposit options and access to tens of thousands of ATMs.

Through a partnership with the digital banking provider Galileo, Carson's RIA clients will now have traditional bank account offerings, including a Mastercard-branded debit card, online bill pay, mobile check deposit and ACH transfers.

Some in the industry, including Wealthfront CEO Andy Rachleff, have long envisioned a one-stop shop for financial services, where clients can automatically deposit their paychecks, pay bills, top off emergency funds and route money into investing platforms.

Carson's direct deposit and debit card could be a significant step in that direction. "This presents an opportunity for advisors to capture assets and a greater share of wallet that traditionally have been untouchable," says CEO Ron Carson in an email.

"It's one more way advisors can further entrench themselves into helping manage their clients' financial lives without them needing another service provider," he adds.

Other digital investing platforms have launched cash products where clients can earn more on assets than in traditional savings accounts. Marcus by Goldman Sachs offers a savings account with a 2.25% APY. Wealthfront markets a savings account that recently rose to a 2.51% rate. The account has reportedly brought in as much as $1 billion in assets since its launch in February.

"The advisor now gets to provide more tangible value for the fee he or she is charging." —Dennis Nolte

The Carson product offers a high-yield savings account with an interest rate of 2.20% and a checking account with an interest rate of 1.24% APY, according to a release. "The integration of banking and financial services is getting closer," says Darin Shebesta, a planner with Raymond James in Scottsdale, Arizona. "There's a lot of money left on the table at the big banks that's not paying anything."

With client relationships at the larger banks feeling less than personal, banking services at RIAs would solve two problems for clients, says Dennis Nolte, a financial advisor with LPL Financial in Oviedo, Florida.

"The advisor now gets to provide more tangible value for the fee he or she is charging," Nolte says, adding that advisors can also start evolving to compensation models other than traditional asset-based fees.

As fiduciaries, RIAs will also be held to a higher standard of customer care than other institutions when dealing with their clients' banking needs, Carson says. "Clients will have full transparency on

Interest Clash

- Money Plus savings account, 2.20%
- Ally Bank, 2.20%
- Marcus by Goldman Sachs, 2.51%
- Wealthfront, 2.29%
- Customers Bank, 2.50%

Source: Company data

the rate they are receiving in all of their accounts by working with their advisor," he adds. "The client's interest will remain first by delivering higher interest rates on accounts that have typically paid much less."

Pairing investment and banking accounts also gives advisors a deeper look into the total wealth of a client, and potentially a more holistic view of their overall needs.

Armed with additional information, advisors can learn more about a client's spending habits, says George Gagliardi of the Lexington, Massachusetts-based Coromandel Wealth Management.

Aggregation Tools

But he also points out that account aggregation tools such as Yodlee, MX and ByAllAccounts, among others, are already available to advisors.

"I can't really see it as a way to bring in more AUM, and in good conscience, I could never see charging for managing accounts primarily intended for cash expenditures," Gagliardi says.

But Will Trout, senior analyst at Celent, sees the bank-product land grab by investment advisory firms as having significant benefits to advisors and clients alike.

Revamp social media presences so younger clients have better platforms to engage with the planning process.

"The move will likely have reverberations across the RIA space," says Trout. "No need to deal with the high fees, overlapping propositions and product centricity of the big-boy incumbents like the largest banks and wirehouses. And they'll be able to do it within the quiet confines of their RIA."

In fact, advisors hope to compete for the $10 trillion in low- or no-interest U.S. bank deposits, according to data compiled by Galileo. For example, the Wealthfront product offers an interest rate that's more than 22 times higher than the national average, according to a release.

In turn, banks have vied for larger chunks of the wealth management market. Goldman Sachs recently bought United Capital for $750 million, with plans to expand its footprint into mass-affluent wealth management.

JPMorgan is another forerunner, offering digital wealth capabilities alongside traditional banking services, says Dennis Gallant, senior analyst at Aite Group.

"You don't have to look too far to find banks utilizing robo advisors and hybrid capabilities," Gallant says. "You're trying to take away any reason for your competition to cross sell to your clients."

The new RIA offerings could look particularly attractive to aging investors, especially those in or nearing retirement, who can no longer rely on a regular paychecks from their employer going directly into their bank account, Gallant says.

"Retirees are getting a synthetic paycheck or income distributions from their investment accounts, so adding banking services makes perfect sense for financial advisors and is an added convenience for investors," he says.

Positive Trust Levels

Another possible edge for RIAs may be the positive trust level engendered by deep-seated client-advisor relationships.

The problem is that retail banking clients do not generally leave legacy institutions, despite intentions to switch. Only 4% of customers moved to new banks in the past year, according to a 2019 study by J.D. Power.

The more than 84,000 respondents to the survey cited record high levels of innovation and improving customer service at some of the larger firms, which resulted in high satisfaction within the banking industry at large, according to the report.

"Personally, I don't think banking is the next great innovation for our industry, but I can see how having it under the same roof might make things easier for the client," says Sean Williams, an advisor with Sojourn Wealth Advisory in Timonium, Maryland. "I don't know how much it's about the client's convenience, or an additional profit center for a larger RIA."

The new RIA offerings could look particularly attractive to aging investors, especially those in or nearing retirement.

On the other hand, advisors tend to have long-standing relationships with clients, which might make the transition to a wealth management platform with similar banking products a little easier, Gallant says.

The QB for Financial Needs

"The financial advisor tends to be the QB of the consumer's financial needs," Gallant says. "Especially with planning-oriented advisors, there has been more and more consolidation of offerings to grab more client wallet share."

The wealth management industry has seen a significant push toward financial planning in recent months. In one of the largest tech acquisitions of the year, Envestnet purchased Money-GuidePro, a leading financial planning technology provider, for $500 million in March.

And both Carson Wealth and Edelman Financial have dropped their FINRA licenses and their affiliation with broker-dealers.

"That's where we're headed," Gallant says. "It's peace of mind." **FP**

Sean Allocca *is an associate editor of* Financial Planning. *Follow him on Twitter at @sjallocca.*

"I did not want to go through another acquisition," says LPL advisor E. Martin von Känel.

PATRICK STRATTNER

War of Retention

Firms aren't keeping many of their planners happy, as evidenced by a near 10% talent churn last year.

By Jessica Mathews

Last August, advisor E. Martin von Känel decided to give his former independent broker-dealer, LPL Financial, a chance to win back his firm.

Von Känel, a CFP who's the founding partner of Patriot Wealth Management, along with the firm's director of operations, Monica Herrera, and training advisor, Elizabeth Martinez, made the two-hour drive from the Los Angeles area to San Diego for a home office visit at the IBD he left in 2009.

It wouldn't be an easy task for LPL, which has grown to more than 16,000 advisors since von Känel first joined in 1994, to persuade him to return to the fold. "LPL [had] lost focus of who I am, along with the other [RIAs]," he says.

But after eight hours at the firm, starting with a "very tasteful and elegant" continental breakfast in a spacious, high-tech conference room, followed by a meeting with department heads and talks with upper management, the team was resold.

"Every person I met — they didn't know who I was — but every person I met had this air of enthusiasm, and I liked that," von Känel says. He moved his practice back to LPL at the end of October.

Not all advisors are as forgiving of former employers or affiliates.

About 27,000 advisors — 9% of the overall advisor industry — switched firms last year, according to data from Cerulli Associates, a Boston-based research firm. That's up from 21,000 the year before.

The fact that so many advisors were willing to uproot themselves signals how much time, effort and money companies are putting behind their recruiting efforts.

A Key Question

But these statistics also raise a question: Are firms doing enough to keep their former recruits happy after those first impressions have faded?

"Less than half of the advisors we surveyed are happy with their current firms," says Charlie Phelan, vice president of practice management and consulting for Fidelity Clearing and Custody Solutions.

More than 33% of advisors say their current firm has not lived up to the value it initially promised, according to a recent Fidelity study on retaining talent. What's more, a majority of advisors expressed discontent with their employers.

Before reuniting with LPL, von Känel was with Summit Brokerage Services for nine years.

He left because of instability that he hadn't signed up for. Ownership of Cetera was handed off twice during his tenure at Summit, part of Cetera Financial Group, which was sold to Genstar and then, five years ago, to RCS Capital.

Such deals can be tumultuous for advisors who must explain these purchases to their clients.

Willingness to move is up across the wealth management field, says recruiter Kathy Freeman's 2019 Annual Trends Report.

It also can make them more likely to leave, which is what van Känel did, despite still liking the people and small-firm feel at Summit.

Avoiding Acquisitions

"I did not want to go through another acquisition, because that's what's going to happen every few years," van Känel says.

"These firms sell to generate what? The commission. The fee," he adds. "I decided to look in a different direction, and look at a company that was not going to be acquired, but maybe it was in the acquisition mode."

LPL and Summit — like all firms, for that matter — must continuously prove their value to their planners well beyond the home office visit, because advisors are in high demand.

"The pipeline of talent in our industry is very skinny," Tim Kochis, special advisor at the consulting firm and investment bank DeVoe & Co., said at the RIA consultant's M&A Conference in New York City in May.

Not Enough Bodies

"Just in terms of sheer bodies, there's not enough of them," he adds.

Recruiting is especially hard for small firms that haven't established well-known brands, according to the wealth management recruiter Danny Sarch. "It's very challenging," he says. "It's a tight labor market everywhere. It's hard for them to get noticed and find people." And once they do, it's hard to keep them.

Willingness to move has increased across the investment management industry, according to the 2019 Annual Trends Report by the executive search firm Kathy Freeman Co.

This year, 63% of the more than 300 respondents said they were interested in switching firms, an increase of 20 percentage points from 2018.

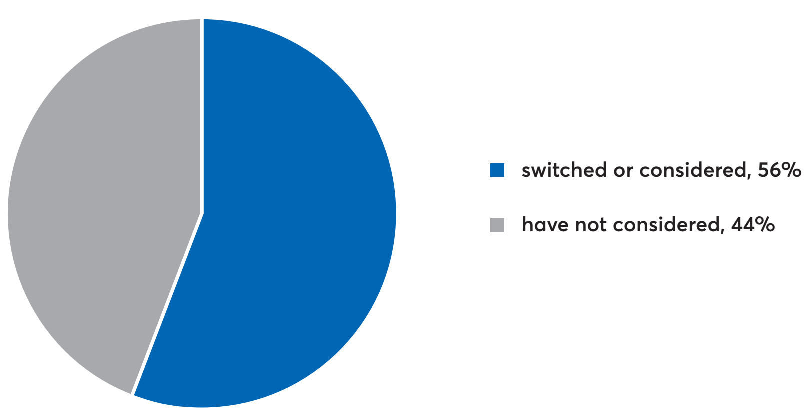
The problem has been particularly acute for the wirehouses.

Morgan Stanley, Merrill Lynch, Wells Fargo and UBS have all experienced falls in their retention rates since the financial crisis. "I think that the magic of being at the big firms is gone forever," Sarch says.

Collectively, the wirehouse channel has lost a net 8,484 advisors in the 10-year period that ended in 2018 — almost 14% of its workforce, according to a 2019 Aite Group report.

Still, the departures have steadied

Over 5 Years, Most Advisors Contemplated Switching Firms



Source: 2018 Fidelity Advisor Movement Study some. Merrill Lynch expanded its headcount by 1% in 2018 from the previous year. UBS was able to grow by 0.4% during the same time frame.

On the other hand, Morgan Stanley's ranks decreased by 18 brokers (0.1%), while Wells Fargo's headcount fell by 4%, or 576 brokers.

At the same time, many regional BDs and large IBDs are growing.

Edward Jones' headcount grew by 1,520 advisors — over 9%. LPL grew by 899 advisors, nearly 6%.

All firms — wirehouses, BDs and RIAs — face an oncoming retirement wave. The average age for a financial advisor is 52, according to Cerulli Associates' latest data. About 47% of CFPs are older than 50, according to 2019 CFP Board research.

Michelle Cortes-Harkins and Rick Harkins affiliated their firm with Commonwealth Financial Network.

Many Approaches

There are as many approaches to recruiting as there are firms, but some tactics work better than others.

Some, for example, look to M&A to expand their ranks. Thirty-one RIA deals were struck during the first three months of 2019, according to research by DeVoe & Co.

"It's [often] a succession strategy for firms if they don't have the right next-gen leaders in their organization," says Kathy Freeman, the executive recruiter.

Liquidizing Profits

It's also, she says, a way for leaders to "liquidize the profits they've built over the many years."

Focus Financial acquired five firms in the first four months of 2019. Its partners purchased 14 new firms. Genstar Capital-backed Mercer Capital inked three acquisitions in the first few months of the year, according to DeVoe. Practices at LPL are acquiring, too, including von Känel's, which is in the market to buy.

"We just had a visit from [LPL's] business development department and they're now looking for firms [planning] to retire or sell their book for whatever reason," von Känel says. "They're looking for assets for us to take on."

"I think that the magic of being at the big firms is gone forever," recruiter Danny Sarch says.

He plans to manage these new relationships with Martinez and eventually pass them over to her and Carly Shafik, who joined Patriot in November and is also pursuing a CFP.

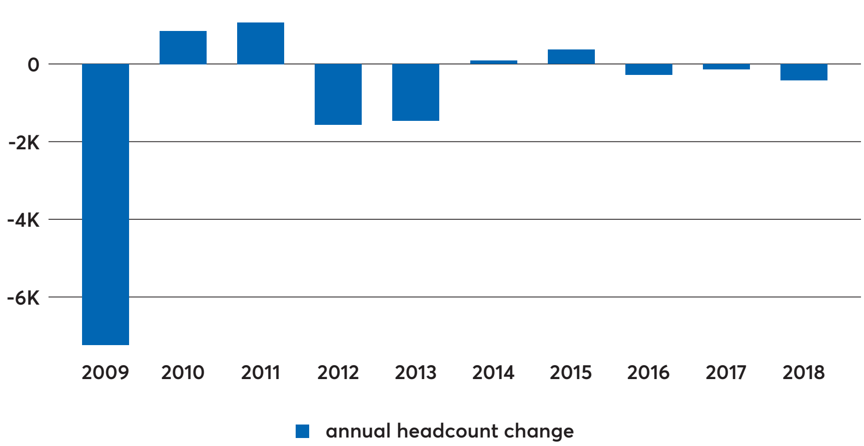
Acquisitions can come with their own challenges. Some deals, after much fanfare, fall apart. New leadership causes uncertainty. Ownership changes may mean disruption for the advisors and possibly clients.

For many advisors, playing an active role in the practice is important.

Having a Seat at the Table

"Everyone wants to feel like an owner, like they have a seat at the table," says Scott Hanson of Allworth Financial, a private-equity backed $3.5 billion RIA,

Wirehouses Face Attrition Difficulty



Source: "New Realities in Wealth Management," Aite Group, 2019


Advisor David Hohimer linked with Wells Fargo's new RIA channel.

which he says has brought on 21 new advisors in the past two years, some through acquisitions.

"As humans, we all need to feel like we are participating in something bigger than ourselves," he says.

Allworth invites advisors to focus groups, including them in the decision-making whenever the firm is considering making changes.

"Being a financial advisor — it's hard work, and if an advisor can spend a little bit of their week time doing something else, it gives them energy, vigor and more excitement in their career," Hanson says.

Improving Engagement

Firms that had employees with high engagement experience 24% to 59% better turnover results, according to Fidelity's retention study.

If an advisor can spend a bit of their time doing something else, "it gives them energy," says Allworth Financial's Scott Hanson.

Freeman's own research backs that up. "As long as [employees are] engaged in what they do, they're feeling like they're challenged and there's a culture there that values their contribution, that's all they can ask for," Freeman says.

Some firms have opened new business arms to keep advisors in their network. Wells Fargo launched an RIA channel earlier this year, its second offering in the independent space alongside its IBD, FiNet.

"I think it creates a really compelling offering in the RIA space that people want," says David Hohimer, one of the first advisors to join Wells Fargo's new channel, First Clearing. The channel allowed him to operate under a fiduciary standard.

"At the end of the day, people are a firm's most valuable asset," Fidelity's Charlie Phelan says.

Advisor Michelle Cortes-Harkins and her husband, Rick Harkins, affiliated with Commonwealth Financial Network, a San Diego-based IBD, earlier this year. She says a sense of community played an integral role in their decision to leave LPL.

Events for Female Advisors

Commonwealth hosted events for female advisors to meet one another, Cortes-Harkins says, noting in particular its three-day women's conference.

"There are so few female advisors in the industry overall," she says. "Just being able to connect with others … and see how they're running their practice, or talk to them about different things, is a big deal."

To attract young advisors, firms can stand out by laying out a career plan and mentorship opportunities, according to Patrick Dougherty, president of a five-person RIA in Texas and a financial planning college professor.

"We need to come up with a serious and legitimate career path," he says. "When they join, we need to keep them interested, train them, offer a decent benefit package," he adds.

Hanson agrees. He has developed a five-year advisor training program for his new hires at Allworth who are just out of college.

Some wealth management firms are getting creative in their strategies to keep employees engaged, offering happy hours, unlimited vacations or even on-site dry-cleaning and shoe shine services, according to Fidelity's study. Specialization can help, too.

Michelle Cortes-Harkins and Rick Harkins, for example, were attracted to Commonwealth's socially responsible and ESG investing resources and portfolio models.

Small Gestures Make a Difference

Small gestures can also made a real difference. Commonwealth sent the husband-wife duo "extra-strength transition relief" bottles during their transition that included treats such Hershey's kisses.

"So many kisses," Michelle says.

"It was just a little pick-me-up if you're working 12, 14, 15 hours a day, and working at night and at home, too," Rick Harkins adds.

The duo also appreciated lunch with one of the founders of the IBD during their home office visit.

Ultimately, Fidelity's Phelan says, extra effort to add value and set up a retention strategy will be cost-effective.

"At the end of the day, people are a firm's most valuable asset," he says.

The good news for firms is that many advisors won't want to make a move — it's a lot of work.

"Monica [Herrera] said if I do another broker-dealer change, she's leaving me, so I'm not leaving LPL," von Känel pledges. **FP**

Jessica Mathews *is an associate editor of* Financial Planning. *Follow her on Twitter at @jessicakmathews.*

Chairman emeritus Tom James is an avid art collector and the hallways at Raymond James' home office are decorated with contemporary paintings.

PHOTO FROM RAYMOND JAMES

Secret Trips to Raymond James?

More than 650 advisors considering a career change visited the firm's headquarters during its last fiscal year.

By Andrew Welsch

Contemporary art celebrating the American West. Photos of the Tampa Bay Buccaneers' home field, aptly named Raymond James Stadium. Corporate memorabilia showcasing growth, branch openings and charity events.

Those are among the sights that greeted more than 650 advisors who toured Raymond James headquarters last fiscal year in St. Petersburg, Florida. But they didn't come to appreciate paintings, sculpture and football. The purpose of their visit? To decide whether they should uproot their careers and clients to switch firms.

The home office visit, like that offered by Raymond James, has become a key component in regional and independent firms' aggressive campaigns to recruit top advisors. These efforts have pushed headcounts at these companies to new heights as they court advisors, who are seeking more control over their professional development and compensation.

A home office tour, which firms hope will showcase their corporate culture and resources, can be a key factor in whether advisors choose to affiliate with one broker-dealer over another.

In recent years, Raymond James has aggressively ramped up recruiting. Understanding how and why this 57-year-old brokerage has undertaken such focused efforts illuminates a little understood corner of the investment advisory space — and helps explain how the company hit a record 7,815 advisors last year.

A home office visit at Raymond James can cost the firm upward of $2,000 per advisor. It includes technology demonstrations and tours of various departments, as well as meetings with company executives, all of whom take hours out of their busy days to meet with prospects.

It's worth it, they say."When we talk about expense savings, slowing down recruiting is not at the top of the list. We don't want to jeopardize growth by cutting off those near-term expenses," says Scott Curtis, president of the private client group at Raymond James.

Advisors who have joined the company say their furtive trips to its corporate campus in St. Petersburg were invaluable.

"We visited a couple of different firms. They were good in their own way. But you can tell, and I don't mean to sound too plain, but you can tell when you are with your people," says advisor Chip Munn, who selected Raymond James over other suitors while riding in a cab to the airport with his team for their return flight home. Munn and his team moved to Raymond James' independent broker-dealer from Hilliard Lyons in 2016.

Raymond James isn't alone in its efforts to improve its home office visits. Regional and independent broker-dealers, in particular, have put considerable time and money into attracting prospective hires to expand their brokerage forces.

Stifel and Edward Jones get regular visitors at their headquarters in St. Louis as does RBC Wealth Management-U.S. in Minneapolis.

Firms put their best foot forward, treating advisors to golf outings or fine dining at classy restaurants. But there's more at stake than filet mignon, insiders say. Advisor-client relationships worth millions can be jeopardized by a transition gone wrong. Does the company have competent staff to handle the move from one firm to another? Can the new employer handle all of the clients' investments? Home office visits go a long way toward warding off mismatches.

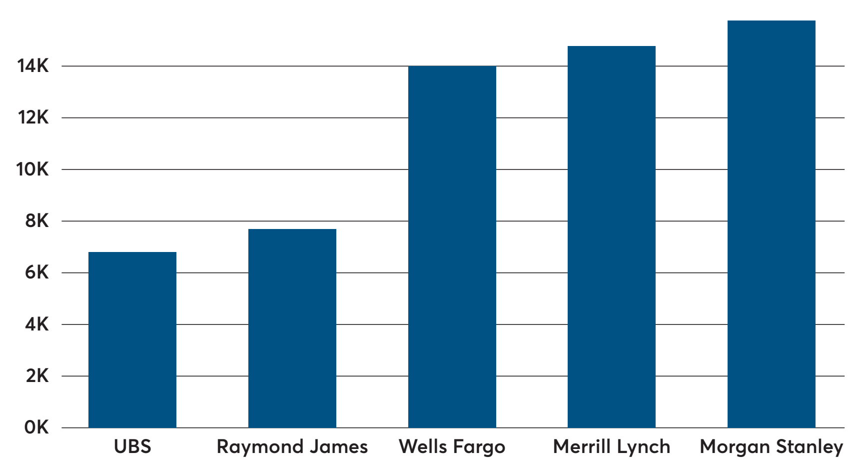
"It's one thing to talk over the phone. It can be completely different when you meet them in person," says advisor Steve Dudash, adding that he wanted "to be able to meet the people who make the decisions and look them in the eye."

A former Merrill Lynch advisor, Dudash considered joining 11 companies and visited five of their headquarters before settling on LPL Financial. On one visit, Dudash extended his trip an extra day. Such trips — which can typically last two to four days — can be taxing for advisors and firms alike. But Dudash wouldn't have it any other way.

"It helped me weed out the ones I needed to eliminate," says Dudash, who has also recruited advisors into his Chicago-based practice, IHT Wealth Management.

At Raymond James, visiting advisors do more than meet executives; they see the firm's technology operations, IT team, cybersecurity preparations, estate planning experts, muni bond desk and more.

Comparing Brokerage Forces



Source: Company data

Although the firm operates several different channels, including RIA, IBD, regional BD and its boutique Alex. Brown unit, most advisors already know which channel they want to be in, says Barry Papa, director of advisor choice consulting at Raymond James.

Visitors get a sense of company history and culture immediately upon walking in the front door. Raymond James memorabilia decorates the hallway: news clippings, photos of the firm's early years and founders, charity work by its employees and more.

Tom James, the firm's chairman emeritus, is an avid art collector, and the company's hallways are decorated with a slew of contemporary paintings and sculpture.

Meetings with the firm's Wealth Retirement Portfolio Solutions team are intended to highlight the firm's expertise and resources. "Our job is to connect an advisor with everything Raymond James has to offer," says Senior Vice President Frank McAleer.

Have an estate planning quandary? McAleer's group will find a solution. It's also possible to arrange visits for an advisor's clients and centers of influence to the team. The firm did 355 of them in its fiscal year 2018, McAleer says.

Although each trip to St. Petersburg is customized to an advisor's interests, every tour includes an introduction to the company's technology platform and its "command center," which handles advisor technology issues.

"When advisors come here, one of the things we want to showcase is that room," says Chief Information Officer Vin Campagnoli.

Raymond James, like some of its rivals, has upped its technology budget in recent years (Campagnoli says the company has been in a period of tech investment since he arrived seven years ago). This has resulted in new goal-planning software, platform updates and a large IT team designed to field advisor questions.

An adjacent cybersecurity center addresses threats to the firm, advisors and clients. A digital world map hangs on the wall and shows ongoing hacking attempts. During a crisis, the center's glass walls frost up to block passersby from seeing sensitive or private information displayed on large screens.

Advisors also meet David Lillis, director of user experience, who introduces them to the firm's software and tech tools. The firm gets so many visitors now, that Lillis averages about 88 meetings per month, with each one running 60 to 90 minutes, he says.

The firm also introduces advisors to its mobile, tablet and desktop apps. "Imagine an FA runs into a client at dinner, has a quick conversation about a new promotion. The FA can, in the parking lot, use the app to verbally enter a note in the CRM [making it available on the advisor's desktop too]," Lillis says.

Efforts Paying Off

The company's efforts appear to be paying off. Advisors joining Raymond James often cite its technology, corporate culture and leadership as reasons for their career changes.

Advisors' most frequently asked questions are client-related, Lillis says. "They want to make it easier to share things with clients, to find things for clients," he says.

Raymond James also shows off its advisor marketing team, which helps brokers with customized websites, newsletters, photos, podcasts and more.

A key to any visit is face time with company staff. "Advisors want to be able to go around and talk to people they will be dealing with on a daily basis," says Frank LaRosa, a recruiter who accompanies advisors on home office visits.

Paul Pagnato, a Merrill Lynch-turned-independent advisor, made multiple visits to the same home offices with his partner, David Karp, when they were planning their career move. To explain why, he points to his team's hiring processes, which typically involve several meetings with a candidate.

"That's because every time you meet with them, you get more data. Did they show up on time for every meeting? Did they follow up after the meetings?" says Pagnato, whose $3.7 billion RIA, PagnatoKarp, is based in Reston, Virginia. Pagnato's approach can be challenging, he acknowledges.

"It's like you have a night job and a day job. You have to maintain the day-to-day operations. You have to serve your clients. That doesn't change. And in addition to that, you have to do this extra work," he says. "We went seven days a week for quite some time to get through that process."

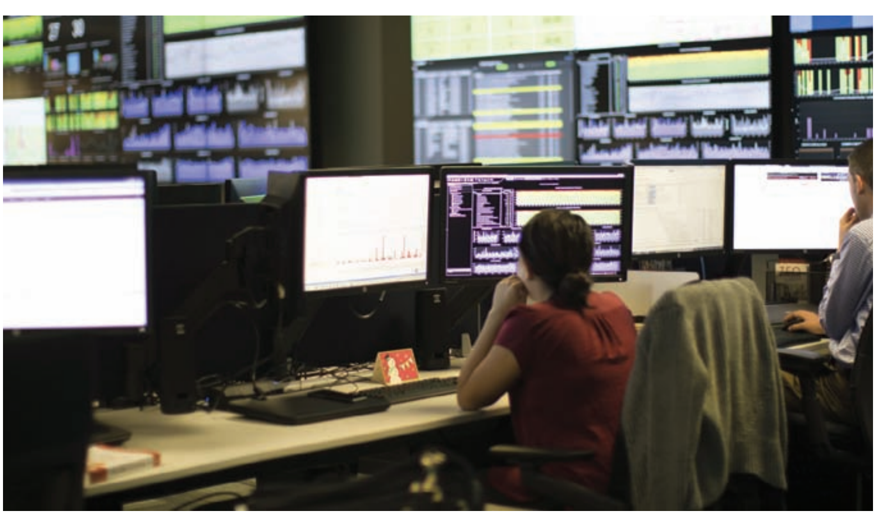


PHOTO FROM RAYMOND JAMES

A visit to Raymond James includes a demonstration of the firm's technology suite and command center.

LaRosa encourages advisors doing any home office tour to take the temperature of the room. "Pay attention to the other people walking in the halls," he says. "Are they getting along? What's the vibe?"

"Advisors want to be able to go around and talk to people they will be dealing with on a daily basis." —Recruiter Frank LaRosa

For advisors who may be too far away to travel, the company has taken a version of its home office visit on the road, replete with executives and specialists to answer recruits' questions. But for those who have made the trek to St. Petersburg, it doesn't compare to the real thing. Plus, skipping a home office visit could send the wrong message, according to recruiters.

"You can do a lot now remotely, thanks to Webex and that kind of thing. But it might raise a red flag," says Danny Sarch, a recruiter in White Plains, New York. "How serious are you about your career if you aren't willing to make the trip?"

If advisors get a chance to size up the firm during a visit, so too does their potential employer. "The truth is that we are trying to get a sense of who the person is, the team is, and is this someone we'd be proud to say is affiliated with us?" Curtis says.

Or, in Munn's words, are these your people? "This is a relationship business. You have to have the technology and the expertise, but people want to know who they are affiliating with," Munn says. **FP**

***Andrew Welsch** is a senior editor of* Financial Planning *and* On Wall Street. *Follow him on Twitter at @AndrewWelsch.*

ALSO IN PRACTICE: CURES FOR ADVISOR BURNOUT, P. 38

A big part of handling a painful circumstance is addressing emotions as they arise.

BLOOMBERG NEWS

Breaking Bad News

The SPIKES protocol, designed by doctors, can help planners choose the best settings and approaches for tough client talks.

By Carolyn McClanahan

At its best, a financial planning relationship brings joy to both clients and advisors, but serious conversations are also often required to break bad news.

The possibility of running out of money, receiving an insurance denial or financial mishaps are relatively common occurrences. What is the best way to handle these tough exchanges?

Doctors are well-versed in breaking bad news. In my previous job as a physician, I faced telling people all varieties of bad news on a daily basis, from sharing a diagnosis of life-changing diabetes or cancer to acknowledging that death would happen soon.

Thankfully, the reports that financial planners have to share are not life threatening. But they can borrow tools from the medical profession to mitigate the pain of these conversations.

A Process with Six Steps

The SPIKES protocol was developed by Dr. Walter Baile and five of his colleagues for oncologists to break bad news to cancer patients. The usefulness transcends its original purpose and is regularly used in all disciplines of medicine. SPIKES is an acronym with six elements.

The **Setting** for a hard conversation creates the appropriate atmosphere.

Use a quiet and private area with minimal distractions. Turn off mobile phones and silence office phones. Let office staff know not to interrupt the conversation. Have tissues available and include other family members if the client desires to have them present.

The medical profession has a six-step protocol that advisors can use for conversations they have been dreading.

Learn the clients' **Perception** of the situation. Use open-ended questions to find out how much they understand about the problem at hand.

For example, if you know that the client is overspending and will run out of money, ask, "What do you understand about your spending and outlook for your finances for the future?" Be prepared to address misinformation and unrealistic expectations.

Invite the clients to set the level of detail they desire in the meeting. In the overspending situation, you can state, "We will discuss your spending and how it plays out in your future financial security. Would you prefer to get into the details of your spending or just an overview of the numbers and the outcome?"

Letting them set the tone of the detail minimizes the chance you will overwhelm them with information they aren't prepared to hear.

Provide **Knowledge**. Summarize the information you've gathered before the meeting. Use warning statements about the bad news you are about to drop, such as, "The projection of your cash flow over your lifetime is not as good as I expected."

Check in with the client to confirm their understanding of the situation. Periodically state, "We have covered a lot of information. What questions do you have so far?"

Address **Emotions** as they arise. Showing empathy and validating emotions go a long way toward providing client comfort. Acknowledge pain or loss.

If crying occurs, offer a box of tissues but don't pull out the next tissue. This gives the other person the control of managing their emotions. It is OK for you to cry, too, as this shows your empathy with their situation. Ideally you will only have tears and won't bawl your eyes out, which could take the focus off your client's emotions.

Summarize the situation and create a follow-up strategy. Review high points of what you covered, the next steps you and the client need to take, and when you will follow up with the client.

For example, if the clients have agreed to reduce their spending, offer to check in periodically in the short term to see how they are doing and to address their challenges.

What to Say, What Not to Say

Communication skills are learned and take constant practice.

There are many resources to improve your style when discussing difficult situations with clients. "Fierce Conversations" by Susan Scott is a perfect reference if a hard conversation is on your horizon. I've read her book at least four times and am probably due for a fifth review.

To prepare for a particularly hard discussion, I write out how I want it to unfold and use her methods to aim for a positive outcome for all involved.

Amy Florian's book "No Longer Awkward" is a great tool in communicating with clients about death and illness. She shares practical tips about what to say and not to say.

Communication skills are learned and take practice. It is worth consulting proven resources when working on your approach.

For example, I have totally extinguished from my communication the phrase, "I'm sorry about your loss." This phrase means nothing to me. It is much better to look for something meaningful that ties the client to their loved one.

A client shared a story on social media about his father, who had recently died. He also posted pictures. I didn't know his dad, but reading his story and seeing the joy in his father's face in those pictures immediately made me write, "Your dad was an amazing person and I love seeing where you inherited that joyful look he has on his face."

In a time of pain and need, hearing good things about the person you love means much more than empty words. Looking for the positive in every situation isn't hard but it does take practice.

Honing your communication skills through the use of tools such as the SPIKES protocol will ease the pain of situations for you and your clients. This will translate into more meaningful and valuable client interactions and increase the chance they will be loyal clients for years to come. **FP**

CAROLYN MCCLANAHAN

Life Planning Partners has designed a space for tough client conversations, complete with comfortable chairs and a box of tissues.

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

ADOBE STOCK

Cures for Advisor Burnout

Tackling the fallout from job-related stress could mean working less or doing more tasks you actually enjoy.

By Ingrid Case

Sophia Bera began her career as a traditional planner, spending five years working face-to-face with clients at two Minneapolis firms. Then, deciding it was time for a change, she accepted a position with New York-based fintech firm, a job that entailed working remotely from home.

It was an experience that taught her volumes about what she didn't want her work life to look like.

"I was expected to be in front of my computer for 50 to 60 hours per week at all times of day," Bera recalls.

She got vocal nodes from talking to clients all day on the phone, developed back problems and gained weight.

"I was exhausted and miserable," Bera remembers. "When I wasn't working, I wanted to sleep."

The overall result: Burnout. "I had no life left," she says.

A New Life

As soon as her stock in the startup began to vest, Bera quit and started an RIA, Gen Y Planning in Austin, Texas, and a new life.

"I designed the lifestyle I wanted and built a business to support that life, instead of trying to squeeze my life in around a job," Bera says.

Things are different now. "I work an average of 30 hours a week," Bera reports. "I'm 10 pounds thinner, and I've worn a bikini more in my 30s than I ever did in my 20s, which speaks to the amount of vacation time and sunshine I'm finally getting."

Bera's experience is far from unique. According to a 2017 survey by Kronos, a workforce management software firm, 95% of human resource professionals believe that employee burnout is sabotaging workforce retention.

Burnout is not just a bad day; it's chronic stress that leaves workers feeling as if they have nothing left to give.

Let's define the terms: Burnout isn't just a bad day, or even a string of bad days. It is chronic stress that leaves workers feeling as if they have nothing left to give.

Restructuring Work

Dealing with it typically involves restructuring work so that it occupies less time or is more satisfying.

Boredom can be a big contributing factor to burnout. It was for Danny Kenny, founder of FI-nancial Planner in Sterling, Virginia.

"You get to a point where, if you haven't learned anything new in six months or a year, you're kind of treading water," he says. Because Kenny was already working for some of the most complex clients, there wasn't a lot his employer could do to resolve his ennui.

Matthew Gaffey focuses on tasks he likes.

His solution was to start his own financial planning practice, which let him adjust his work in directions that are more interesting to him.

Kenny is no longer working with ultrahigh-net-worth clients.

"Trying to save $20 for someone who has $20 million isn't so exciting," he says. "Now I'm working with people who don't have so much of a cushion."

Getting Help

Getting help and limiting your practice to the activities that you enjoy are other ways to make your work life more engaging.

"Burnout often happens when people repeat things that they don't enjoy," says Matthew Gaffey, senior wealth manager at Corbett Road Wealth Management in Potomac Falls, Virginia.

The fix, Gaffey says, is to identify the specific tasks that you don't like and eliminate them. "Maybe you're strong on investments but not so strong on planning, for instance," so you find someone who is strong on planning and weak on investments and partner with or hire that person.

"That frees your time to do what you like, and that will either keep you from getting burned out or solve your burnout," Gaffey says. "You can also say, 'I don't like it, so we don't do it.'"

Unsurprisingly, working too much is a leading cause of burnout. The 70 to 80 hours a week that Kenny spent in his accounting job took a toll on his time with his wife and young children.

He recalls the contrast between a family vacation and his job. "I spent a week and a half or two weeks having fun with the family at Acadia National Park," he says. "It was really tough to go back to seeing my daughter, who was about a year old, for maybe half an hour a day."

Danny Kenny found new types of clients.

If you work for someone else, your employer might be willing to adjust your hours, as Kenny's offered to do, or let you work from home to eliminate commuting time.

If you run your own firm, consider working from home at least some of the time.

Managing your time more efficiently is another option. Bera has reduced her workweeks by nearly half since the days she worked for the fintech startup.

To do that, she has become much better at prioritizing the work that will move her business forward. She strives to be efficient and focused. "When I'm on, I'm on," Bera says.

Sophia Bera gained free time and lost 10 pounds.

Even something as simple as setting aside time to be deliberately unavailable to clients can insulate a planner from burnout.

T.J. van Gerven, owner of Modern Wealth Builders in Woburn, Massachusetts, relies on technology to be "extremely accessible" to his wide-flung clientele. "I feel as though I'm constantly on call," he says.

To avoid burnout, van Gerven has carved out at least an hour every day when he has no access to his phone or his computer.

He walks around a pond near his house, plays basketball, goes for a drive or goes out for something to eat.

Who knows, he muses, "I might like to expand my unavailable time to the weekends eventually." **FP**

Ingrid Case, *a* Financial Planning *contributing writer in Minneapolis, is a former senior editor of* Bloomberg Markets *magazine. Follow her on Twitter at @CaseIngrid.*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In|Vest 2019 Agenda At-A-Glance

Tuesday July 16, 2019

7:30 a.m. | **Badge Pickup Opens**

Sponsored by: salesforce

8:10 a.m. - 8:30 a.m.
The Warmup Act

8:30 a.m. - 8:40 a.m.
The Show Begins
Sebastian Dovey, *Conference Chair and In|Vest 2019 Host*

8:40 a.m. - 9:00 a.m.
CEO Spot - Learn More: Marcus by Goldman Sachs®
MODERATOR: **Seb Dovey**, *Conference Chair*
Elizabeth Overbay, *Chief Operating Officer and Chief Financial Officer*, MARCUS BY GOLDMAN SACHS®

9:00 a.m. - 9:30 a.m.
The Robots Will Win. Discuss.
MODERATOR: **Suleman Din**, *Technology Editor, FINANCIAL PLANNING*
Barry Ritholtz, *Co-Founder and Chief Investment Officer*, RITHOLTZ WEALTH MANAGEMENT LLC
Jon Stein, *CEO and Founder*, BETTERMENT

9:30 a.m. - 10:00 a.m.
Schwab on Offense
MODERATOR: **Chelsea Emery**, *Editor-in-Chief of Financial Planning*, SOURCEMEDIA
Bernie Clark, *EVP & Head of Schwab Advisor Services* CHARLES SCHWAB

10:00 a.m. - 10:20 a.m.
E*Trade's New Game
MODERATOR: **Penny Crosman**, *Editor at Large, AMERICAN BANKER*
Karl Roessner, *CEO*, E*TRADE FINANCIAL CORPORATION

10:20 a.m. - 10:40 a.m. | **Networking Break**

10:40 a.m. - 11:40 a.m. | **WealthTech Demos – Round 1**
What's next in wealth tech? Don't miss these fast-paced, high-pressure demos of new tech and ideas in digital wealth.

11:50 a.m. - 12:30 p.m.
What Does It Really Take to Modernize Advice?
Kendra Thompson, *North America Head of Wealth Management*, ACCENTURE

12:30 p.m. - 2:00 p.m. | **Networking Lunch**

Sponsored by: MYVEST

2:00 p.m. - 2:30 p.m.
Five Industry Trends Reshaping Financial Advice
Michael Kitces, *Partner and Director of Wealth Management*, PINNACLE ADVISORY GROUP

2:30 p.m. - 2:50 p.m.
TDA's Tiger Team
MODERATOR: **Caleb Silver**, *Editor in Chief* INVESTOPEDIA
Sunayna Tuteja, *Head of Strategic Partnerships & Emerging Technologies*, TD AMERITRADE

2:50 p.m. - 3:10 p.m.
CEO Spot - Stay Tuned, You Won't Want to Miss This One

3:10 p.m. - 3:40 p.m. | **WealthTech Demos – Round 2**

4:00 p.m. - 5:45 p.m. | **Session Tracks**

Bank Wealth Management	Driving Growth	The Digital Advisor	Asset Management	Masters of User Experience
Sponsored by: Deloitte.		*Sponsored by:* Cognizant		

Visit InVest.Events for the stellar line-up of track sessions and speakers.

5:45 p.m. - 7:00 p.m. | **Networking Reception**

Wednesday July 17, 2019

7:30 a.m. - 8:15 a.m.
Breakfast Briefing - *Awesome Content to be Announced!*
Sponsored by: neustar

Breakfast Briefing - *Awesome content to be anounced.*
Sponsored by: solstice KIN+CARTA

8:00 a.m. | **Badge Pickup Opens**
Sponsored by: salesforce

8:30 a.m. - 9:55 a.m. | **Session Tracks**

Retirement	High Net Worth	Research	Innovation + Partnerships	In the Weeds
	Sponsored by: ENVESTNET			

Visit InVest.Events for the stellar line-up of track sessions and speakers.

9:55 a.m. - 10:15 a.m. | **Networking Break**

10:15 a.m. - 10:35 a.m.
Reimagining Retirement Planning: BlackRock + Microsoft Take on the Challenge
MODERATOR: **Sebastian Dovey**, *Conference Chair*
Anne F. Ackerley, *Managing Director*, BLACKROCK

10:35 a.m. - 11:55 a.m.
WealthTech Demos – Round 3

11:55 a.m. - 12:15 p.m.
Client Digital Experience: Lessons from UBS WMA
MODERATOR: **Gauthier Vincent**, *Principal and Wealth Management Leader*, DELOITTE CONSULTING LLP
Kraleigh Woodford, *Managing Director, Head of Digital Client Experience*, UBS WEALTH MANAGEMENT

12:15 p.m. - 1:15 p.m. | **Networking Lunch**
Sponsored by: Kasisto

1:15 p.m. - 1:35 p.m.
J.P. Morgan Chase Wants America to Get Invested
MODERATOR: **April Rudin**, *Founder and President*, THE RUDIN GROUP
Dr. Kelli Keough, *Global Head of Digital Wealth Management*, JPMORGAN CHASE

1:35 p.m. - 2:15 p.m.
Come on – Let's Really Think Outside the (Digital) Box
MODERATOR: **Sebastian Dovey**, CONFERENCE CHAIR
Kelly O'Donnell, *EVP and Chief Administrative Officer and Chief Risk Officer*, EDELMAN FINANCIAL ENGINES
Amit Sahasrabudhe, *Head of Strategy & Technology*, RBC WEALTH MANAGEMENT
Martin Small, *Managing Director*, BLACKROCK'S U.S. WEALTH ADVISORY
Rich Steinmeier, *Managing Director, Divisional President*, LPL FINANCIAL

2:15 p.m.- 2:35 p.m. | **Dynasty's Strategy Unpacked**
MODERATOR: **Charles Paikert**, *Senior Editor FINANCIAL PLANNING*
Shirl Penney, *President and CEO*, DYNASTY FINANCIAL PARTNERS

2:35 p.m. - 2:55 p.m.
In the Spotlight: Rockefeller Capital Management
Christopher J. Randazzo, *President of Private Wealth Management and Head of Technology & Operations*, ROCKEFELLER CAPITAL MANAGEMENT

2:55 p.m. - 3:30 p.m.
Can Digital Advice Become Bank's Customer Lynchpin?
MODERATOR: **Gauthier Vincent**, DELOITTE
PANELISTS: **Mike Sha**, *CEO*, SIGFIG
Jessica Willis, *CFP®, CPWA® Founder & CEO* POCKETNEST
Erich C. Smith, *EVP and COO*, PNC WEALTH MANAGEMENT

3:30 p.m. - 4:00 p.m.
Monetizing Data + The Intersection of Privacy
MODERATOR: **Cheryl Nash**, *President, Investment Services*, FISERV
Bob Miller, *Vice Chairman & CEO*, PRIVATE CLIENT RESOURCES LLC
Leigh Feldman, *Managing Director*, PROMONTORY FINANCIAL GROUP
Lowell Putnam, *Head of Partnerships*, PLAID

4:00 p.m.
Conference Concludes
(With Special Swag for Everyone Who's In the Room at 4:00 p.m.)

ALSO IN CLIENT: P. 46: SERVING THE NEXT GENERATION


A net unrealized appreciation tax break may not match crowd surfing, but it is a welcome benefit.

ADOBE STOCK

Be Wary of This LSD

A lump-sum distribution for net unrealized appreciation on employer stock can slash taxes, but mind the details.

By Ed Slott

Aging hippies who once fretted about the bad acid at Woodstock should now be on the alert for another, potentially treacherous, type of LSD — lump-sum distributions.

LSDs are serious business with big tax benefits at stake, but a mistake can be expensive and irreversible. Baby boomers retiring in record numbers face critical decisions, namely: Should they do an IRA rollover, stay with the plan or use the LSD tax break for net unrealized appreciation on employer stock?

First, ask your client two questions: Do you have company stock in your 401(k)? And, is it highly appreciated?

First, the basics. The net unrealized appreciation tax break allows the appreciation on company stock in a 401(k) to be taxed at long-term capital gains rates instead of the ordinary income rates that would otherwise apply to distributions from company plans or IRAs. This tactic can slash the tax bill in half.

To qualify for the NUA tax break, two tests must be met. The distribution:

- Must be a lump-sum distribution
- Must have a triggering event.

To qualify as a lump-sum distribution for the NUA tax break, the distribution must occur in one tax year, and the participant's account balance must be zero by the end of that year.

The stock must be distributed in kind — as stock — to qualify, and be transferred to a taxable account. If the stock is rolled over to an IRA, then the NUA tax break is lost forever.

All funds from all like plans at the employer must be withdrawn. This would include an employee stock ownership plan or a Roth 401(k) from the same company.

The distribution must also occur after one of four triggering events:

1. Death
2. Reaching age 59½ (if the plan allows these distributions)
3. Separation from service (not for the self-employed)
4. Disability (only for self-employed).

Each triggering event is a fresh start, providing another opportunity to use NUA. For example: If the employee reaches age 59½ (a triggering event), but is still employed, and takes a partial distribution from the plan in a year after this event, the NUA option is not lost yet. Once the employee separates from service (another triggering event), there is a fresh start.

If the employee retires and then takes a partial distribution in a year after this triggering event, the NUA option is most likely off the table for his lifetime. However, when the employee dies, death becomes a new triggering event and the employee's beneficiary can qualify for the NUA benefit.

The Tax Benefit

When the stock is distributed in a qualifying lump-sum distribution, only the cost of the shares when purchased is taxed.

The net unrealized appreciation is not taxed until the stock is sold. When that happens, the NUA is taxed at favorable long-term capital gain rates (Per IRS Notice 98-24).

Appreciation from the date of distribution through the date of sale does not automatically qualify for the long-term capital gain rate, however. The stock would have to be held for the required time to qualify for the long-term capital gain rates.

If the plan consists of employer securities and other assets, the other assets in the plan can be transferred into an IRA, or converted to a Roth IRA. All or part of the company stock portion can be transferred to a taxable (non-IRA) account.

The company stock transferred to a brokerage account still qualifies for the tax break on the NUA, even if other shares are rolled over to an IRA.

Any partial plan distributions taken after a triggering event but before the year of the lump-sum distribution will disqualify the lump-sum distribution for NUA purposes.

Partial plan distributions can be ordinary distributions, in-service distributions, 72(t) distributions, required minimum distributions or even in-plan Roth conversions and can disqualify the lump-sum distribution, unless there is a fresh start from a new triggering event.

If the lump-sum distribution is disqualified, the NUA tax break is lost and the entire distribution is taxable at ordinary income tax rates.

Here's an example. Anna has highly appreciated stock of her employer in her 401(k). She retired in 2018 but has left her funds in the 401(k) because her advisor has told her not to do an IRA rollover so that she can use the NUA benefit on a future qualifying LSD.

In 2019, Anna must take an RMD, and she does so. In 2020, Anna wishes to do the LSD and get the NUA break. She cannot, because of the RMD in 2019. That RMD is a partial distribution after a triggering event (separation from service).

The NUA would have worked if Anna took a lump-sum distribution in 2019, emptying the entire balance in one year. The NUA break is now lost for Anna under separation from service.

However, if she holds the stock in her 401(k) until death, that would create a new triggering event and her beneficiaries can get the NUA break if they empty the account in one year.

Exceptions to the LSD Rule

Not all plan distributions occurring in a year after the lump-sum distribution will disqualify the lump-sum distribution requirement. An additional contribution attributable to the last year of service will not disqualify the lump-sum distribution. Neither will dividends deposited after the year-end.

The NUA break applies only to stock of the employer held in the company retirement plan, the 401(k). Stock of other companies does not qualify.

One common question is whether the NUA tax break is available for distributions from employee stock ownership plans. Generally yes, but not all ESOPs qualify; those that do must comply with distinct ESOP-related rules. ESOPs are rich in company stock since that is required under IRC Section 4975(e)(7), so employees with these plans should not do an IRA rollover or other LSD without first evaluating the potential NUA tax benefit.

Whether an ESOP participant can actually take advantage of this tax treatment will depend on the plan. If the ESOP does not distribute shares in-kind, but instead requires the securities to be cashed out within the plan, NUA would not be available. **FP**

What Qualifies as Company Stock for NUA?

For the NUA tax break "company stock" means only investments held inside the company retirement plan inside the 401(k). Company stock held by the 401(k) plan can include:

* Employer stock, purchased by the employee within the plan.
* Employer matching contributions of company stock.
* Employee contributions, stock purchased with after-tax contributions.
* Company stock in the Roth 401(k) component of the plan.
* ESOP plans, only if the plan is a qualified plan. If the stock is available only to executives, for example, it won't qualify.
* Bonds issued by the company.
* Employer stock funds. In theory, you can do NUA with a stock fund. The issues are tracking the basis of the stock and converting the shares of the fund to shares of stock while the assets are still in the plan so that shares of stock can be distributed.
* Shares of closely held companies. (Note: Valuations and good records of stock purchases would be needed. Stock may have to be bought back to keep the ownership in the family. Closely held companies generally do not want the stock going to outsiders.)

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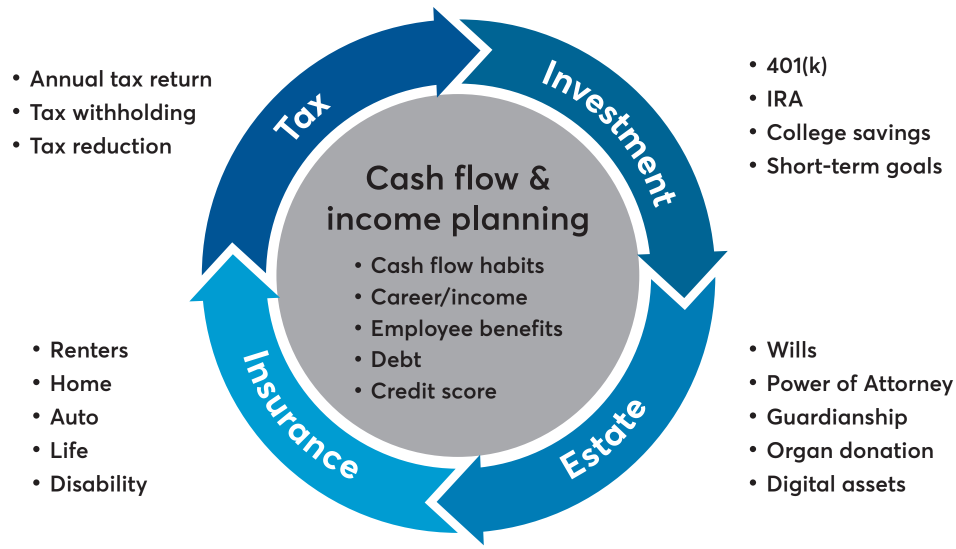
A Portrait of the Cyclical Planning Process



Source: Michael Kitces

Serving Next-Gen Clients

Younger investors tend to have limited assets, but that doesn't mean their advice needs are simple.

By Michael Kitces

For the same reason that Willie Sutton robbed banks, advisors have focused on baby boomers: That's where the money is.

This accepted wisdom is so pervasive that some industry watchers question whether the pendulum has swung too far, at the expense of younger clients getting their financial footing.

The challenge for many advisory firms is that it's not profitable to do planning for clients who don't yet have sufficient assets to generate enough AUM fees for the firm. To combat this, advisory firms can adopt various fee-for-service models — from charging minimum fees based on a percentage of income to flat monthly retainer.

Those tactics, however, don't relieve pressure on the firm to justify the value of its advice. And while younger clients may have fewer assets and lower net worth, this doesn't mean they have simple needs. Indeed, there are substantial, complex issues for younger clients, particularly around cash flow.

Unique Advice Needs

The planners who succeed with this cohort will be the ones who recognize these individuals' unique advice needs.

Generations X and Y are still working, so they may not yet have significant accumulated assets to manage, but they are saving at an increasing pace — especially the older cohort as they reach their peak earning years. They also stand to inherit $30 trillion from their parents and grandparents.

But the industry is still struggling with what kind of advice to deliver to these clients that would justify their fees.

After all, if clients are still early in the accumulation stage, the mathematical reality is that where they invest doesn't matter nearly as much as how much they invest each year.

In terms of life transitions, next-generation clients need more advice than retirees do.

Trying to find a few basis points of alpha just doesn't matter very much for early accumulators; an extra 1% per year of growth may be worth less than just making an extra month of contributions in the first place.

This reality tends to lead to relatively straightforward asset-allocated portfolios and a focus on saving instead. Here planners tend to fall back on an old adage which doesn't even require a planner to deliver: "Live within your means, spend less than you earn and save the rest."

Financial planning software tools reflect this fact, as eMoney Advisor recently launched its

Foundational Planning tool and MoneyGuidePro announced its new simplified and slimmed down MoneyGuideOne solution.

This recognizes that next-generation clients' more-limited net worth means their financial needs are not as complex as the more affluent retiree clients that advisors have focused upon in recent years.

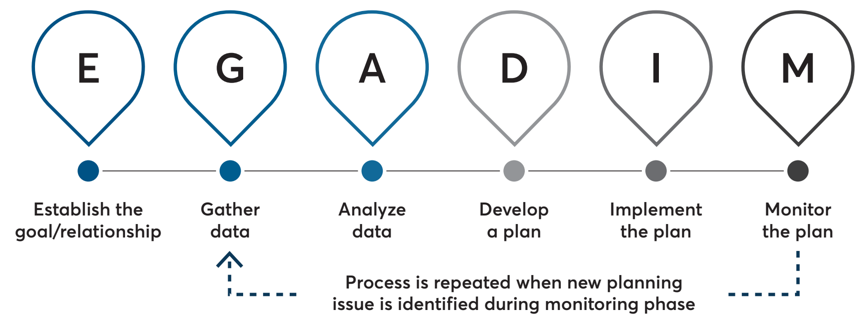
The caveat to doing simplified financial planning for next-generation clients in their 20s, 30s, and 40s, however, is that if you ask them, their financial lives are anything but simple.

After all, it's throughout the middle decades of the working years that households often face their greatest financial strains, as the life transitions that occur through those years come in quick succession, one after another.

By contrast, the important transitions faced by a typical retiree are retirement itself, changes brought about by a major health event, and the death of a spouse. It's within these moments of transition that financial stress is amplified.

In terms of life transitions, arguably it's your next-generation clients who need ongoing planning advice even more than the traditional retiree does.

The Six-Step Financial Planning Process



Source: Michael Kitces

That's because retirees may face a major life transition that could necessitate counsel from an advisor once only every decade or so.

Meanwhile, next-generation clients face life transitions that could impact their planning needs every year or so.

Ebbs and Flows

A key distinction of how the planning process differs for next-generation clients versus traditional baby boomer clients is not merely the pace and nature of life transitions, but the entire focus of the planning process itself.

Planning for baby boomers tends to focus on assets — or more generally, on the balance sheet. Meanwhile, planning for next-generation clients is more about income and expenses — or the cash flow statement of the household.

Most planning decisions for next-generation clients don't concern where and how to allocate the assets and how to grow them. Instead, it's about where and how to allocate the cash flows of the household's income, and how to grow that.

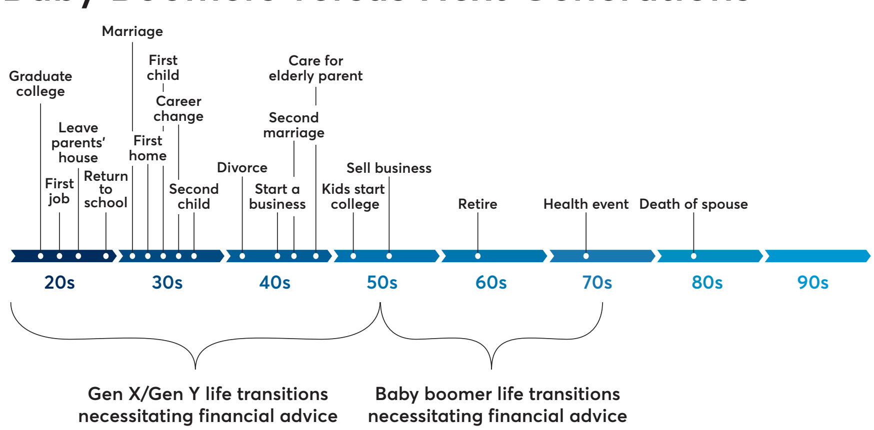
After all, every major transition that next-generation clients face has substantial ramifications for the household's income and cash flows, but not necessarily for their assets.

They may be negotiating salary and benefits for a first job, getting married and merging household finances and bank accounts, buying a first home or having children. All of these transitions have implications for where and how to allocate cash flows, and how to grow what's left over.

Virtually every life transition has a cash flow implication, which in turn necessitates real conversations. Just being prepared for these moments — and the conversations they demand — introduces substantial complexity.

Try talking to a new couple about merging their financial lives. Will they be maintaining joint or separate bank accounts? Will they make financial decisions jointly, or delegate them to one person? Will they shift from a dual-income household to a primary

Life Transitions That Drive Planning Advice: Baby Boomers versus Next Generations



Source: Michael Kitces

breadwinner with a stay-at-home spouse to avoid the cost of child care?

To put it mildly, these are not simple planning conversations.

Additionally, beyond the life-transition–based cash flow and income issues that may arise for next-generation clients, a sizable number of planning issues and opportunities in these areas may also emerge.

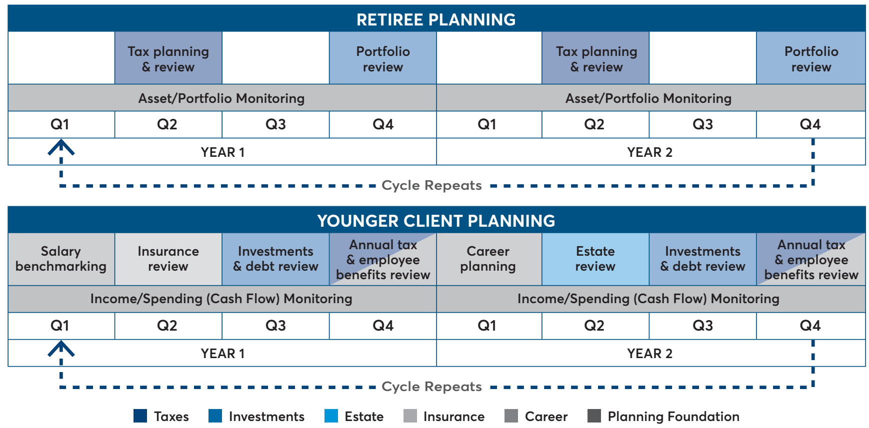
These may include household spending and savings opportunities; managing the debt side of cash flow obligations and building a credit score to be able to access debt; career issues that directly impact what a household can earn, from salary benchmarking to negotiating raises or job promotions; going back to school; changing careers; starting a business; or simply maximizing the available employee benefits attached to whatever job is available.

That's not to mention all of the housing decisions that tie not just to cash flow, but also to the interplay between geography and income — for example, the ability to relocate to get a better job or a shorter or more manageable commute.

The key point is simply that planning conversations with asset-based retirees revolve around their assets, while planning conversations with income-based workers revolve around their income and where that income flows.

A wide array of topical needs and concerns follow these groups, not to mention an ongoing series of life transitions that trigger more specific planning needs and conversations that, unfortunately, are not well supported by today's planning software tools.

Two-Year Planning Process Cycle for Retirees versus Younger Clients



Source: Michael Kitces

Cyclical Planning

The six-step planning process has always culminated in an implementation phase where clients follow through and actually implement the advice, followed by a monitoring phase where the advisor observes the client's situation and identifies moments where the planning process needs to be re-engaged.

In the traditional planning process with retirees, the monitoring has revolved primarily around the assets themselves. In part, this is because an ongoing investment management process requires an ongoing monitoring process to ensure that the portfolio remains properly invested and in line with its investment policy statement.

And because typically few transitions occur for clients in the later stages of the accumulation or decumulation processes — short of the retirement transition itself, a health event and the death of a spouse — the only monitoring focus left for asset-based clients tends to be based around monitoring the assets themselves.

By contrast, when it comes to next-generation clients still in their working years, the cycle of life transitions means that the whole range of planning needs is more likely to be updated on an ongoing basis — whether it's insurance, tax, estate or college planning, as well as cash flow and income planning.

In other words, the irony is that planning for next-generation clients and the complexities that emerge from a never-ending series of life transitions actually make the planning process even more conducive to an ongoing, cyclical advice relationship.

As the chart on the first page highlights, not only are there more (and more regularly changing) topics to discuss with younger clients, but operating on a two-year cycle means a high likelihood that, by the time the cycle fully repeats, some life event or transition may have happened that necessitates a change to one or more areas.

The key point is that young people with limited assets don't actually have simpler planning needs.

There are many opportunities to charge for planning advice and create value to justify fees. So while there may be less wealth at stake, the focus of planning can shift to the income and cash flows that build wealth — and advisor loyalty — instead. **FP**

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ALSO IN PORTFOLIO: TIME FOR INTERNATIONAL ETF DIVIDENDS?, P. 54

BLOOMBERG NEWS

The Rebalancing Factor

The longer the investing view clients have, the easier it is to measure the effect on their portfolios.

By Craig L. Israelsen

What is a reasonable time frame through which to judge a portfolio's performance?

Understandably, many clients measure the performance of their portfolios over relatively short periods.

It's easier, after all, to look at how your portfolio has done over the past few years than over the past 20. It's also easier to live in the now than to think about the 20 years ahead in your investing life.

However, the long-term investing view is a good one for most clients to have — certainly if they are years away from retirement. Additionally, the longer the investing view, the easier it is to measure the effect of rebalancing on a portfolio, and to see if it adds value over time.

Here we'll take a look at the performance of a multi-asset portfolio, as well as its seven core asset classes, over 30 rolling 20-year periods. We'll evaluate the portfolio based on its 20-year annualized returns, and also take a look at its performance based on whether or not there is annual rebalancing.

Rolling Performance

Let's focus first on the rolling performance of the multi-asset portfolio's different ingredients. Shown in the chart "The Rolling Twenties" are the rolling 20-year returns of these asset classes: large-cap U.S. stock, small-cap U.S. stock, non-U.S. stock, U.S. bonds, U.S. cash, real estate and commodities.

It's easier for clients to live in the financial now than to think about the 20 years ahead — but it isn't wiser.

Large-cap U.S. stock is represented by the S&P 500, while the performance of small caps was measured by the Ibbotson Small Companies index from 1970-1978 and the Russell 2000 from 1979 to 2018. The performance of foreign equities is represented by the Morgan Stanley Capital International EAFE index. U.S. bonds were represented by the Ibbotson Intermediate Term Bond index from 1970 to 1975, and the Barclays Capital Aggregate Bond index from 1976 to 2018.

Cash is represented by 3-month Treasury bills.

Real estate was measured by the annual returns of the NAREIT index from 1970 to 1977, and the Dow Jones US Select REIT Index from 1978 to 2018 (prior to April 2009, it was known as the Dow Jones Wilshire REIT index).

Finally, commodities were represented by the Goldman Sachs Commodities index.

The far-right column of

The Roaring Twenties

Rolling 20-Year Annualized Returns	Large-Cap U.S. Stock	Small-Cap U.S. Stock	Non-U.S. Stock	U.S. Bonds	U.S. Cash	Real Estate	Commodities	Multi-Asset Portfolio With Annual Rebalancing
1970-1989	11.56	12.98	15.21	9.66	7.82	14.69	15.84	13.64
1971-1990	11.17	12.84	14.38	9.28	7.87	12.26	16.50	13.20
1972-1991	11.91	14.13	13.56	9.63	7.93	12.55	15.03	13.31
1973-1992	11.35	14.84	11.09	9.75	7.90	12.91	13.26	12.76
1974-1993	12.78	18.00	13.58	10.01	7.68	14.68	9.41	13.27
1975-1994	14.60	19.21	15.52	9.55	7.49	16.22	7.88	13.72
1976-1995	14.61	18.18	14.39	10.06	7.48	15.86	9.92	13.67
1977-1996	14.57	16.42	14.58	9.46	7.48	15.44	12.25	13.56
1978-1997	16.66	16.28	13.73	9.81	7.47	15.30	10.85	13.57
1979-1998	17.76	14.91	13.17	10.19	7.34	13.64	6.95	12.77
1980-1999	17.88	13.96	14.26	10.04	7.06	11.25	7.22	12.43
1981-2000	15.68	11.95	12.24	10.50	6.76	11.16	8.84	11.87
1982-2001	15.24	11.97	11.02	10.61	6.19	10.90	8.17	11.47
1983-2002	12.71	9.47	10.17	9.59	5.72	10.04	9.08	10.50
1984-2003	12.98	10.19	10.79	9.37	5.32	10.21	9.29	10.73
1985-2004	13.22	11.54	11.42	8.84	4.90	10.70	10.11	11.09
1986-2005	11.94	10.29	9.66	7.88	4.68	11.06	10.84	10.43
1987-2006	11.80	10.92	8.06	7.35	4.62	11.77	9.82	10.12
1988-2007	11.82	11.34	7.45	7.56	4.54	11.08	10.20	10.08
1989-2008	8.43	7.86	3.14	7.43	4.26	7.48	5.51	7.40
1990-2009	8.21	8.34	4.05	7.01	3.85	8.69	4.47	7.47
1991-2010	9.14	10.83	5.85	6.89	3.47	11.52	3.59	8.33
1992-2011	7.81	8.52	4.56	6.50	3.20	10.83	3.86	7.44
1993-2012	8.22	8.43	6.09	6.34	3.03	10.92	3.64	7.63
1994-2013	9.22	9.27	5.68	5.74	2.87	10.21	4.26	7.73
1995-2014	9.85	9.63	5.02	6.20	2.66	11.61	1.92	7.75
1996-2015	8.19	8.03	4.42	5.34	2.38	11.21	(1.01)	6.56
1997-2016	7.68	8.25	4.17	5.29	2.14	9.82	(1.92)	6.09
1998-2017	7.20	7.89	5.25	4.98	1.92	9.04	(0.89)	6.07
1999-2018	5.62	7.40	3.52	4.55	1.78	9.83	0.57	5.67
Average 20-Year Rolling Return	11.66	11.80	9.53	8.18	5.26	11.76	7.51	10.34
Standard Deviation of Rolling 20-Year Returns	3.28	3.43	4.22	1.90	2.15	2.21	4.91	2.77
49-Year Average Annualized Return from 1970 to 2018	10.21	10.60	8.42	7.37	4.80	11.41	6.51	9.48

Performance summary of rolling 20-year returns for seven asset classes and a multi-asset portfolio (best-performing asset class each calendar year highlighted in yellow).
Highest 20-year return for each asset class highlighted in blue font.
Source: Steele Mutual Fund Expert, calculations by author

"The Rolling Twenties" shows the rolling 20-year returns of a portfolio including all seven asset classes in equal allocations. The multi-asset portfolio was rebalanced at the end of each year over all rolling 20-year periods.

As noted by the yellow highlighting, individual asset classes had distinct periods during which they generated the best rolling 20-year returns.

Dominant Asset Classes

Commodities dominated during the first three periods (1970-1989, 1971-1990 and 1972-1991). Performance leadership shifted to U.S. small caps in the 20-year period starting in 1973, and stayed there for five consecutive 20-year periods. Then, U.S. large caps took over for the next 12 rolling 20-year periods. In the 10 most recent 20-year periods, real estate has been the dominant asset class.

Equally interesting is the general decline in 20-year performance for each asset class, as well as the multi-asset portfolio, in the more recent 20-year rolling periods.

The most recent 20-year performance (1999-2018) is the lowest over this 49-year period for four of the individual asset classes, as well as the total portfolio.

Moreover, the most recent 20-year performance for most asset classes is considerably below its average 20-year rolling performance. The only exception is real estate, which is "only" around 200 bps below its average 20-year rolling return.

You'll also see the highest 20-year return for each asset class and the multi-asset portfolio highlighted in blue font. It's worth noting that the highest 20-year returns all occurred several decades ago.

Finally, it's noteworthy that the average 20-year rolling return is higher—in every case—than the 49-year annualized return.

What should advisors tell their clients about these findings? Very simply this: Performance of individual asset classes and multi-asset portfolios is cyclical. Don't overreact to cyclical realities. Stay the course. If you're not diversified, get diversified.

Rebalancing Review

Let's now turn to the issue of rebalancing. Rebalancing a portfolio keeps the various ingredients at their assigned allocations as the years pass. Consider how rebalancing has played out over the long haul.

What advisors should tell clients: Don't overreact to cyclical realities. Stay the course. If you're not diversified, get diversified.

In "To Rebalance or Not to Rebalance?" we examine the performance of the seven-asset portfolio where each asset class was equally weighted with an allocation of 14.29%. One version of the portfolio was never rebalanced and the other version was rebalanced at the end of each year.

The big question: Did rebalancing produce a performance advantage?

To determine this, I measured the performance of both portfolios over each of the 30 rolling 20-year periods, to control for time-period bias. Taxation was not considered, which implies that the accounts in this analysis were tax-sheltered.

The first 20-year period was from Jan. 1, 1970, to Dec. 31, 1989. A total of $7,000 was invested into each portfolio at the start of every year ($1,000 into each of the seven asset classes).

The ending value of the non-rebalanced portfolio was $780,051, compared to $790,594 for the annually rebalanced portfolio.

Thus, the rebalanced portfolio saw an advantage of $10,543.

Over the next rolling 20-year period (1971-1990), annual rebalancing produced a $37,109 advantage over the non-rebalanced portfolio.

We observe a rebalancing advantage in 70% of the 30 rolling 20-year periods. The average rebalancing advantage was $11,910. The largest rebalancing advantage was $37,109, over the period from 1971 to 1990. The largest rebalancing disadvantage of -$23,988 occurred from 1980 to 1999. So, during that time, the portfolio was $23,988 better off when it wasn't annually rebalanced.

To Rebalance or Not to Rebalance?

20-Year Rolling Periods	Non-Rebalanced 7-Asset Portfolio	Annually Rebalanced 7-Asset Portfolio	Rebalancing Advantage in 70% of the Rolling 20-Year Periods
1970-1989	780,051	790,594	10,543
1971-1990	646,256	683,366	37,109
1972-1991	685,690	717,681	31,991
1973-1992	659,783	680,007	20,224
1974-1993	677,908	676,833	(1,075)
1975-1994	613,809	613,525	(284)
1976-1995	624,846	630,229	5,384
1977-1996	635,429	644,295	8,867
1978-1997	628,650	624,789	(3,861)
1979-1998	569,283	547,961	(21,323)
1980-1999	577,638	553,650	(23,988)
1981-2000	521,908	537,977	16,069
1982-2001	431,498	452,515	21,017
1983-2002	358,633	391,845	33,212
1984-2003	402,654	434,882	32,228
1985-2004	420,752	446,750	25,998
1986-2005	413,349	434,894	21,545
1987-2006	429,694	441,534	11,840
1988-2007	400,247	424,230	23,983
1989-2008	248,947	277,612	28,666
1990-2009	275,694	304,144	28,450
1991-2010	295,901	319,182	23,282
1992-2011	272,539	292,293	19,754
1993-2012	280,552	297,334	16,782
1994-2013	293,932	309,879	15,947
1995-2014	290,283	293,440	3,157
1996-2015	262,059	257,149	(4,910)
1997-2016	264,547	258,091	(6,455)
1998-2017	276,866	268,395	(8,471)
1999-2018	260,134	251,750	(8,384)

Source: Steele Mutual Fund Expert, calculations by author

It's instructive to note that two of the nine periods in which rebalancing produced the largest disadvantage (1979-1998 and 1980-1999) were periods that ended at the high point of the tech bubble. When an asset class (large-cap equities in this case) is experiencing unusually large returns year after year, one might choose not to rebalance but instead to let the asset run.

By not rebalancing, the gains in the "running" asset class are allowed to compound on themselves, thus producing a better portfolio outcome — for a while.

A Bubble Bursts

The non-rebalanced portfolio allowed the percentage allocation in surging large caps to escalate during the late 1990s. Thus, the non-rebalanced portfolio outperformed the rebalanced portfolio during this time.

It's a logical idea to let winners run by not rebalancing — but it's short-sighted.

But all that changed in 2000, 2001 and 2002, when the tech bubble burst and the performance of equities crumbled. The S&P 500 had returns of -9.1% in 2000, -11.89% in 2001 and -22.10% in 2002. Foreign stock and small caps also sank. These negative returns were applied to large allocations in the non-rebalanced portfolio. Big ouch.

Witness the large rebalancing advantages that immediately followed the 1980-1999 rolling period. The 1981-2000 rolling period had a rebalancing advantage of over $16,000, followed by $21,017 over the period from 1982 to 2001 and $33,212 from 1983 to 2002.

It's a logical idea to let winners run by not rebalancing — but it's short-sighted. The problem comes when the outperforming asset class suffers a correction (which they all do) and their large losses are experienced by a larger-than-originally-specified portion of the portfolio. Moreover, how is anyone capable of knowing how long an asset classes will continue on a hot streak? For these reasons, rebalancing a portfolio each year is advisable.

This study reveals that, even over 20-year rolling time periods, we observe material fluctuations in the performance of every major asset class.

Clearly, there will be even greater performance variation over shorter time periods. Thus, it's important that advisors and clients stick to a long-run investing plan and don't overreact to the natural cycles of asset class performance, which include downturns.

Rebalancing makes good use of performance weakness by buying more of that asset — not selling out during periods of weakness.

A success rate of 70% is compelling. But it's also important to remember that rebalancing needs time to demonstrate a benefit. Twenty years might be a good starting point. **FP**

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Time for Overseas ETF Dividends?

After a decade-long bull market in U.S. stocks, looking to into international equities may make sense for some clients.

By Joseph Lisanti

Three For the Road

Ex-U.S. dividend-focused ETFs

Name	Ticker	Expense Ratio	3-YR Return	3-YR Sharpe Ratio	5-YR Return	5-YR Sharpe Ratio
FlexShares International Quality Dividend	IQDF	0.47%	6.18%	0.43	0.11%	0.04
Invesco International Dividend Achievers	PID	0.55%	8.89%	0.64	0.49%	0.08
Vanguard International Dividend Appreciation	VIGI	0.25%	8.59%	0.69	NA	NA
MSCI AWCI ex-U.S. Index			8.09%	0.66	2.83%	0.22

Annualized total returns as of May 7; Sharpe ratios as of April 30
Source: Morningstar

It has been a spectacular decade for U.S. equities. Over the 10 years ended April 30, the S&P Composite 1500, composed of large- mid- and small-cap stocks, posted an annualized total return of 15.34% versus 7.75% for the MSCI All Country World ex-U.S. Index benchmark.

The old Wall Street adage that "trees don't grow to the sky" is worth citing. The next 10 years will likely show somewhat different rankings. Advisors looking to rebalance equity positions may want to consider dividend-focused ETFs that look outside the United States.

In choosing the candidates described here, we eliminated portfolios that targeted a specific capitalization size, as well as those that limited themselves to high-yield equities.

We've restricted our discussion to funds with more than $100 million in

Canada is well-represented in the Invesco International Dividend Achievers ETF.

BLOOMBERG NEWS

AUM. Each of the following ETFs draws from the total international market, both developed and emerging segments. Here are the details on three ETFs that passed our screens:

FlexShares International Quality Dividend Index Fund (IQDF, expense ratio 0.47%) has $837 million in assets and 170 holdings.

IQDF, launched in April 2013, is based on an index that features only dividend-paying stocks that have been screened for multiple factors, including profitability, management expertise and cash flow.

Invesco International Dividend Achievers ETF is the granddaddy of international stock dividend funds.

The portfolio leans toward large-cap value stocks, but includes mid-cap (29.44%) and small-cap (7.48%) issues. Financial stocks (22.85%) form the largest sector concentration, followed by industrials (10.34%) and consumer discretionary (10.10%) issues.

Slightly more than 20% of holdings are from emerging markets, with the remainder from developed areas.

By country, U.K. stocks are the biggest bet, at 13.98% of the portfolio. Japan (13.86%) and China (7.48%) are next in line.

Morningstar sees IQDF's forward dividend yield at 7.73%.

For the year through May 7, this portfolio has returned 9.75%, while the one-year performance is negative (-7.07%). The annualized three- and five-year returns for IQDF are 6.18%, and 0.11%, respectively.

Invesco International Dividend Achievers ETF (PID, 0.55%), which came public in September 2005, is the granddaddy of international stock dividend funds.

The 63-stock portfolio is based on an index that requires companies to have five consecutive years of dividend increases. PID, which has $752.3 million in assets, is approximately 79% invested in developed countries, with the rest in emerging markets.

Financials (18.48%), communications services (13.75%) and industrials (13.24%) are the heaviest sector concentrations in the portfolio.

Canada is the most represented region, with 42.96% of the portfolio. The U.K. (19.753%) and Russia (8.46%) follow. Surprisingly for a fund labeled international, 7.56% of holdings are domiciled in the U.S.

A Deal Breaker

That could be a deal breaker for advisors looking to avoid overlap. Forward yield, as estimated by Morningstar, is 5.49%. YTD through May 7, PID returned 14.16%, with 5.91% for one year.

Annualized returns for three, five and 10 years are 8.89%, 0.49% and 7.69%, respectively.

Vanguard International Dividend Appreciation ETF (VIGI, 0.25%), only around since February 2016, has $1.1 billion in assets.

VIGI is based on an index that requires companies to have posted seven consecutive years of dividend growth. REITs are excluded.

At the end of March (Vanguard delays posting holdings until 15 days past the end of the month), VIGI's stock holdings were approximately 76% in developed markets, with the rest in emerging markets.

The 402-stock portfolio had its largest concentrations in technology (19.56%), consumer defensive (17.11%) and financial (14.12%) stocks.

By geography, developed Europe (38.19%) represented the largest group of equities followed by emerging Asia (19.29%).

Morningstar projects VIGI's forward dividend yield at 2.08%. For 2019 through May 7, VIGI returned 12.99%. The ETF's one- and three-year annualized returns were 1.29% and 8.59%, respectively. **FP**

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JULY 2019

CE Quiz

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From: A Guide to LSD

1. Which of these is NOT considered a triggering event that would help a client realize a net unrealized appreciation tax break on a lump-sum distribution of company stock?
1. Death
2. Reaching age 59½
3. Separation from service
4. All of these are triggering events

From: The Rebalancing Factor

2. Which of these asset classes had the highest annualized returns from 1999 to 2018?
1. Large-cap U.S. stocks
2. Small-cap U.S. stocks
3. Commodities
4. Real estate

3. Which of these assets had the most favorable standard deviation of rolling 20-year returns from 1970 to 2018?
1. Large-cap U.S. stocks
2. Small-cap U.S. stocks
3. Commodities
4. A seven-asset portfolio consisting of large caps, small caps, commodities, U.S. bonds, cash, real estate and international stocks

4. Over the 30 rolling 20-year periods from 1970 to 2018, rebalancing the same seven-asset portfolio was advantageous to overall returns what percentage of the time?
1. 70%
2. 50%
3. 25%
4. 90%

From: How Business Owners Get Preferential Tax Rates With 199A QBI Deduction-Production Income (online only)

5. Where does the phaseout income range for a single tax filer aiming for the qualified business income deduction begin?
1. $185,400
2. $160,700
3. $200,500
4. $150,100

6. Which of these tax deductions will reduce both QBI and AGI?
1. Educator expenses
2. Alimony paid
3. IRA deduction
4. Self-employed health insurance deduction

From: Could BDs be Disqualified Even After Self-Reporting? (online only)

7. Which FINRA form must a broker-dealer file to request an eligibility proceeding if the firm faces a shutdown after it self-reports improper 12b-1 fee disclosures?
1. Form 211
2. Form MC-400A
3. Form U4
4. Rule 15c2-11 Exemption Request Form

8. How much would this eligibility proceeding cost?
1. $5,000
2. $10,000
3. $7,000
4. $15,000

From: Avoiding the Pitfalls of Designating a Trust as an IRA Beneficiary (online only)

9. Which of these is NOT a requirement for the IRS to consider a trust a see-through instrument (thus making it eligible to be paid out over a beneficiary's lifetime)?
1. It must be irrevocable when the IRA holder dies
2. It must be possible to identify the "oldest possible" beneficiary
3. It must name specific people as beneficiaries
4. It must be given to the plan administrator by Dec. 31 of the year after the death

From: Top-Performing Technology Funds of the Decade (online only)

10. Which of these funds has the least favorable expense ratio?
1. iShares Expanded Tech Sector ETF (IGM)
2. Vanguard Information Technology ETF (VGT)
3. Invesco S&P 500 Equal Weight Tech ETF (RYT)
4. MFS Technology A (MTCAX)

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

To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is July 31, 2021.

In addition, the Investments & Wealth Institute, formerly the Investment Management Consultants Association, has accepted this quiz for CIMA, CIMC and CPWA CE credit. Advisors must answer eight out of 10 questions correctly to pass. The deadline is July 31, 2021.

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

Financial Planning

Admit Your Mistakes

Sharing an uncomfortable personal story with a client can help you forge a lasting bond.

By Joel Roberts

Several years ago, my wife and I made the seemingly reasonable decision to postpone obtaining life insurance until we had started a family.

A few months later, just five days before sitting for the CFP exam, the unthinkable happened: I was diagnosed with cancer. Quite naïve at the time, I did not understand the repercussions of that diagnosis in the context of our life insurance postponement.

After I had finished treatment and had been declared cancer-free, I again consulted insurers. I learned to my dismay that I was deemed uninsurable, for multiple years, by all but a couple of insurers, who quoted appallingly unaffordable policies.

I pieced together various alternatives, including group term policies offered by my employer, professional associations and merchant/corporate memberships. But I could only minimally plug the gap. Ultimately, my wife and I had little choice but to ride it out with a less than ideal amount of coverage.

As an advisor, I first shied away from telling this cautionary tale, fearful it would paint me in an unfavorable light. But the more I've embraced the narrative, the more I bear witness to its trust-building power.

People love stories. Without fail, this particular story produces an "aha" moment. Suddenly, I have my listeners' undivided attention. The client, or the prospect, appreciates my sharing and wants to know more. What I have to say seems much more important because I've humanized myself.

My mistakes — and my admission of those mistakes — makes me a better planner. The trust I establish early on can be a solid foundation for the planner/client relationship.

Believe me, I know: It's scary to share. If planners share everything, they might be seen as incompetent or unprofessional.

But undersharing is dangerous too. If planners share little, they may come across as pompous, out-of-touch and unsympathetic. And just retelling other people's stories isn't very effective because it misses the appealing aspects of a personal narrative: humility, perseverance, introspection and growth.

What's the best way to make that connection?

Focus on two behaviors: listen generously, and then share generously. Care about what your clients say to you, and care about what you say to clients. This requires authenticity. Listen with purpose, identify the conflict/problem, connect it to your conflict/problem, and then speak with purpose.

If planners share too much, they fear they appear incompetent. But undersharing is dangerous, too.

Treat both stories with the utmost respect. Stay true to your clients and to yourself, and you will have a great chance of establishing an authentic bond.

All financial planners have had setbacks and missteps in their financial lives, but not all financial planners will cop to it. They should.

Clients and prospects don't want to hear a long list of your qualifications and successes; they read that on your website long ago.

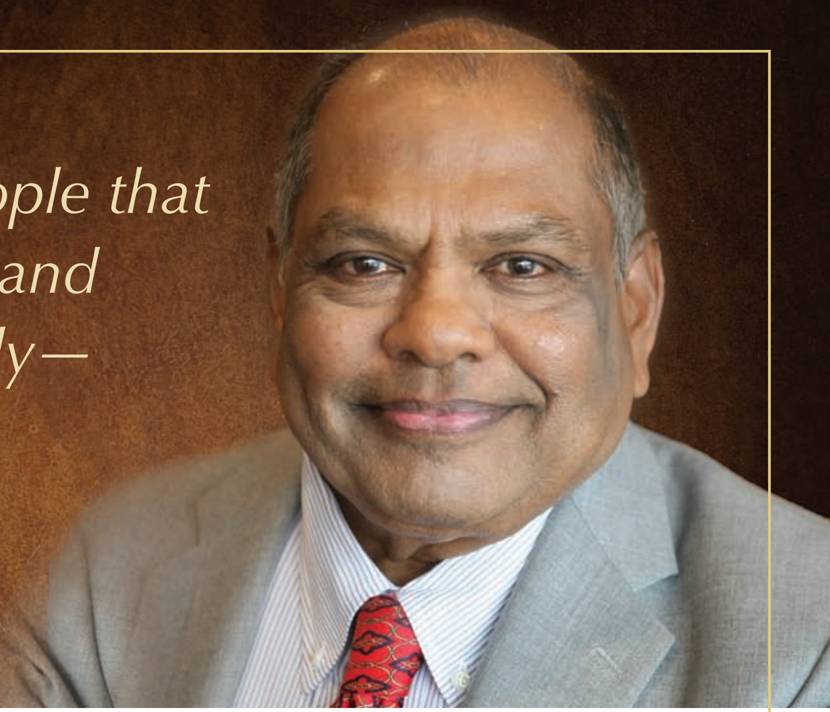
Instead, they want to hear about the conflicts you've navigated, the problems you've solved, and the failures you've managed to survive. **FP**

__Joel Roberts__ is COO of J.P. Marvel Wealth Management in Boston.

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

“There are some people that come into your life and change it completely—

Ed Slott has been that for me.



Tiger Woods, Lebron James, Derek Jeter—all of the greatest all-stars have one thing in common—great coaches making them better. In my nearly 40 years in business, Ed Slott and his team have provided that significant influence, leadership and wisdom inspiring my successful career as an advisor. He’s the coach that makes good advisors great.

My membership in Ed Slott’s Elite IRA Advisor Group℠ has fueled me to reach my fullest potential. Making more money is only one piece of that equation. I have been able to assist my clients with life-altering tax planning and have published a bestselling book on these topics. I was an engineer, paralegal and financial planner before meeting Ed, and the knowledge I have gained from his group has been so much more actionable than anything I ever learned in any school. If you are a financial professional, working with Ed Slott and Company is without a doubt the best possible investment you can make in yourself. Join the network. Your network will define your net-worth!”

—Rao Garuda, CLU®, ChFC®*

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