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Vol. 48/No.8

BUILDING A HOUSE AND A PLAN: PRO BONO AWARDS P. 40

Financial Planning

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ARE WE THERE YET?

Small advisory firms have been slow to offer family leave benefits. Planners like Douglas Boneparth want change to happen faster.

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August 2018 | VOL. 48 | NO. 8

"The industry has not done any favors to young advisors," says Douglas Boneparth, who owns Bone Fide Wealth in New York.

JORDAN HOLLENDER

Columns

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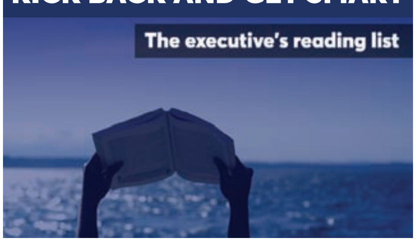
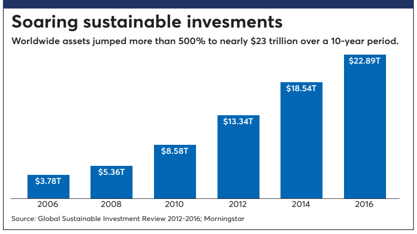


Soak Up Some Sun and Wisdom

On your next summer getaway, cozy up with one of the books that equipped wealth management executives with the tools to succeed in their roles. You might just learn something that will help your work life when you get back. Go to https://bit.ly/2Mpx7dn

TAPPING THE ESG MARKET



Impact Investing

Worldwide sustainable investment assets jumped more than fivefold to nearly $23 trillion between 2006 and 2016, according to the most recent data from the Global Sustainable Investment Review. Learn more about what ESG investing could mean for clients at https://bit.ly/2J0rpwq

EVENTS

Sept. 23-26
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St. Louis
https://bit.ly/2ElpZuf

Oct. 3-5
FPA Annual Conference
Chicago
https://bit.ly/2rzKz6Y

Oct. 15-18
NAPFA Fall National Conference
Philadelphia
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Oct. 28-31
Schwab Impact
Washington
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Editor's View

Choose, Use or Lose

Advisors who don't offer digital planning tools to clients may lose them.

I recently came away disappointed from a meeting with a financial planner I'd considered hiring. Our conversation went well until the end, when he told me I'd need to fill out a 14-page PDF with details large and small, including my address, children's information, real estate holdings, fixed expenses and salary details. My enthusiasm drained away. This planner worked for a firm that already had this information. Why the duplication and why a PDF?

I'm not alone in feeling frustrated. When independent advisors are slow to catch up with the digital revolution, it costs them.

Clients are increasingly choosing firms based on the digital experience they will have, said Kelli Keough, the global head of digital wealth management for JPMorgan Chase, speaking at our In|Vest conference in New York last month. "If we don't have a fantastic experience for our clients, we will lose our clients to those who do," she warned.

My experience, staring at the 14-page form, certainly wasn't fantastic. I haven't made any decisions yet about that planner, but neither have I started on all that paperwork.

New Voices

Fortunately, there are two new columnists for *Financial Planning* who are embracing change. This month marks the inaugural column of Brent Brodeski, CEO of Savant Capital Management in Rockford, Illinois, who will write on big-picture trends that are reshaping advisory practices. He debuts this month with "Are You Starving Your Firm?" And Allan Boomer, managing partner of Momentum Advisors in New York, brings a nuanced eye to the toughest client conundrums in "It's Time to Mix Things Up." — **Chelsea Emery**

Benchmark

DATA-BASED INSIGHT FROM *FINANCIAL PLANNING* AND SOURCEMEDIA RESEARCH

Retirement Advisor Confidence Index

Trade War Worries Clients

Overall business conditions for wealth managers appear to be worsening for the first time since 2016, according to the monthly survey.

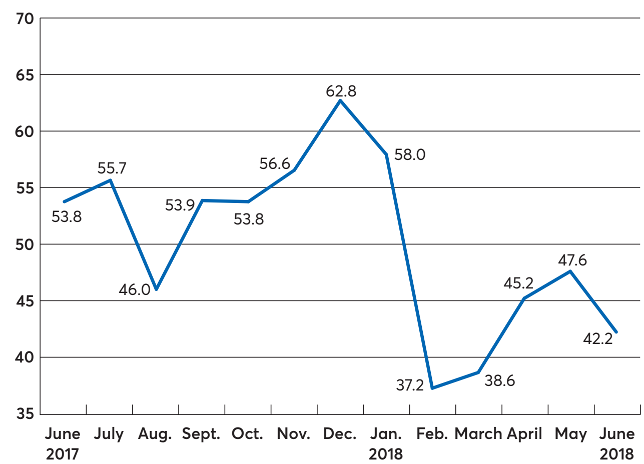
By Harry Terris

The onset of a multifront trade war is at the top of the list of investor concerns and is helping to damage overall sentiment, advisors say. For one, clients are asking questions about the impact of tariffs on investment holdings. There are "more conversations as to how [tariffs] might affect their accounts," one advisor says.

Stock price volatility is also weighing on investors, and many clients "are not as comfortable taking on risk," according to another.

Indeed, clients' appetite for risk continues to shrink, according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers. The component tracking risk tolerance slid 5.4 points to 42.2, registering its fifth consecutive month in negative territory. Readings below 50 indicate a

CLIENT RISK TOLERANCE



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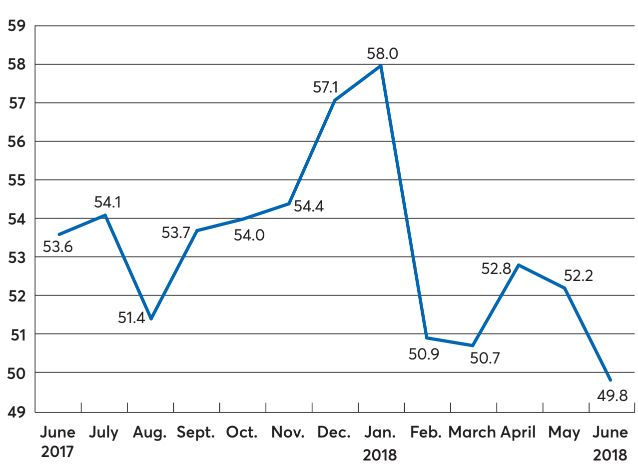
RETIREMENT ADVISOR CONFIDENCE INDEX



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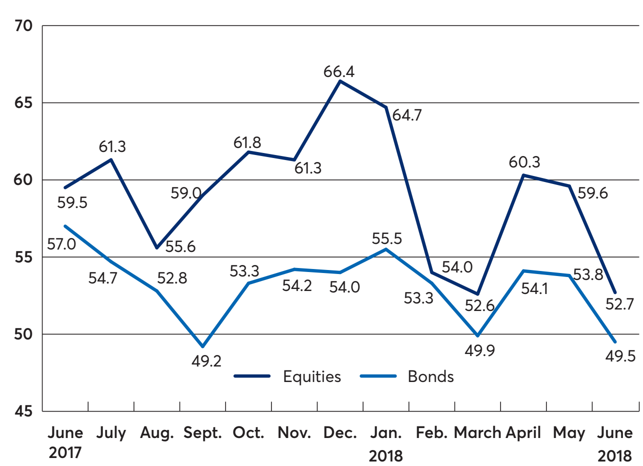
CLIENT ASSETS USED TO PURCHASE EQUITIES AND BONDS



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.

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decline, while readings above 50 indicate an increase.

The poor reading on risk tolerance helped push the composite into contraction territory, with a decline of 2.4 points to 49.8. That's the first time since late 2016 that the index has suggested overall business conditions for wealth managers are worsening. Besides risk tolerance, the composite tracks product selection and sales, client tax liability, asset allocation, new retirement plan enrollees and planning fees.

A pullback was also seen in investment flows. The component tracking the client assets used to buy bonds dipped into negative territory slid 4.3 points to 49.5. The component tracking assets used to buy equities dropped 6.9 points to 52.7. "Clients are concerned about equity and fixed-income valuation, and geopolitical risk," one advisor says.

Some advisors say clients are also expressing broader qualms about fundamentals, as the economic expansion enters its 10th year and as the yield curve flattens — possibly signaling increased chances for a recession.

Nevertheless, advisors say strong hiring has helped support retirement plan enrollments and contributions. "New participants in employer plans are higher due to lower unemployment and businesses hiring more workers," one advisor says. The RACI component tracking contributions to retirement plans rose 4.6 points to 55.1, and the component tracking the number of retirement products sold increased 3.4 points to 53.4. Those moves helped keep the component for fees for retirement services in positive territory, at 52.7.

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

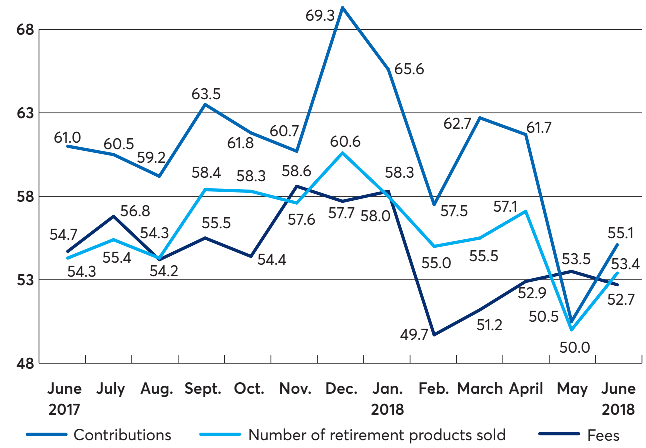
The number of advisors who say mass-affluent clients (net worth $250,000 to $1 million) would be extremely vulnerable to a significant decline in equity prices was flat, at 17.8%.

Advisors say mass-affluent clients continue to be exposed to rising health care costs, with the number reporting that they would be extremely vulnerable to a significant increase edging up to 35.6%.

In terms of clients' retirement preparations, wealth managers say they believe that about 60% of mass-affluent clients will be able to replace their income for 30 years at retirement, compared with 78% of high-net-worth clients ($1 million to $10 million) and 85% of ultrahigh-net-worth clients (more than $10 million). **FP**

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

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



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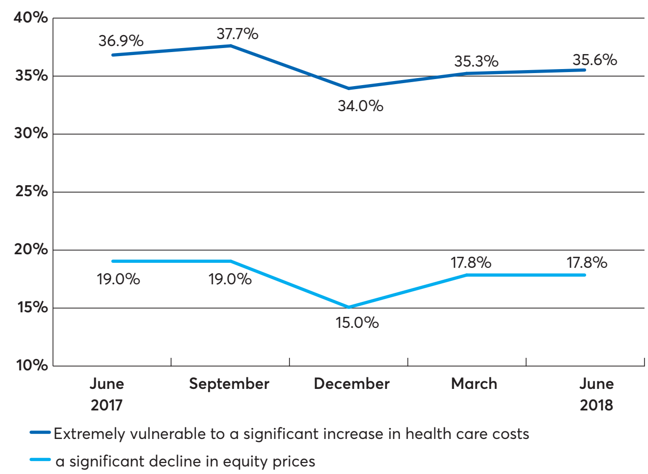
MASS-AFFLUENT RETIREMENT READINESS



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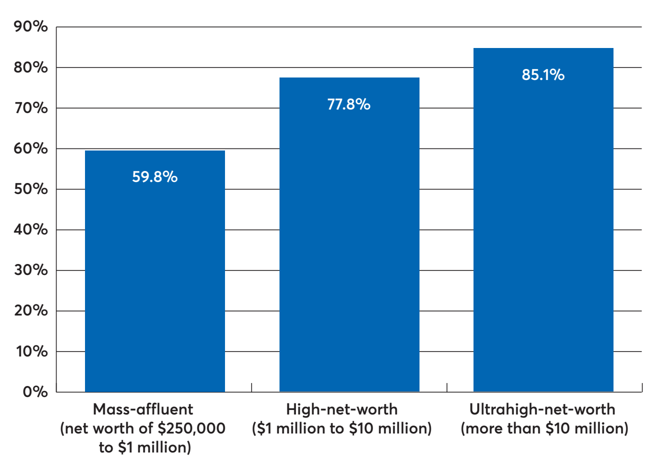
ABLE TO REPLACE INCOME AT RETIREMENT



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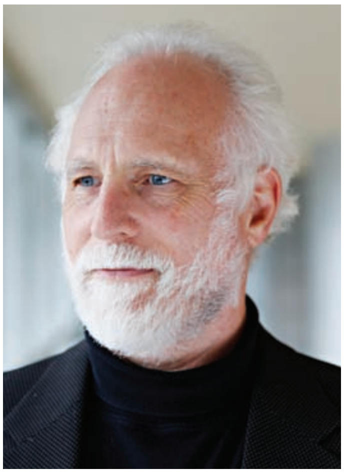


How to Tell Your Own Story

Most advisory firms are not systematically creating public awareness of their services. That's a big mistake.

By Bob Veres

It's easy to learn from success, but you can achieve much more by learning from failure. I, for one, learned quite a bit from a project that did not turn out the way I'd expected.

Recently, I worked with a marketing consulting firm to poll subscribers to my newsletter. We asked how advisors market themselves, among other topics. Are they using advanced techniques like targeted Google or Facebook ads? How much are they spending on marketing overall? Do they employ a dedicated marketing professional?

Other questions related to return on investment. We envisioned great things, like learning the true dollar cost of obtaining a client, the profession's return from its marketing expenditures and which strategies were most effective.

So how was this a failure? By the time we ended the survey, we had gotten back only about 200 responses, by far the lowest response rate I've ever experienced. A previous survey had netted 1,554 responses, and the one before that garnered even more.

What we learned — and I think this is significant — is that most advisory firms are not systematically marketing themselves. And even if they are, they aren't tracking their expenditures and the results. So they didn't feel comfortable filling out a survey.

Megan Carpenter, co-founder of FiComm Partners, the marketing firm that worked with me on this project, was not especially surprised. By her estimate, wealth management and planning firms spend, on average, just 1.7% of their top-line revenue on marketing. To put that in perspective, the next lowest marketing spending in the entire U.S. economic landscape comes from manufacturing firms, which on average spend about 4% of top-line revenue.

Tech companies fall in the middle of the overall spectrum, spending 12% to 25% of revenue on marketing. At the high end, the CRM company Salesforce devotes upward of 40% of its revenue toward making the public aware of its existence.

More to the point, advisor marketing tends to be scattershot. It may include taking a center of influence to lunch, or posting interesting stuff on a website. There may be a client appreciation dinner thrown in, where current clients are invited to bring a guest or two who might be impressed enough with an advisor's thank you speech to make an appointment and explore a business relationship.

Write about the most important changes you want to bring about in your clients' lives. This resonates with staff and with potential clients.

If this represents the typical advisor's marketing activities, and those expenses are not tracked as a line item on the annual budget, and the results are not tracked either, then filling out the survey would be a waste of everybody's time.

I'm hoping that this will change — for several reasons. First, I (perhaps selfishly) want fiduciary advisors to do a better job of taking market share from their brokerage competition. The brokerage firms are devoting huge advertising budgets for 30- and 60-second ads on the most popular TV networks and sporting events, telling the public they can be trusted (or, in the case of Wells Fargo, that they are working to earn back trust). They are effectively deploying howitzers while planners are deploying the equivalent of peashooters. A more focused effort to tell the world about your services would accelerate the shift in market share from brokers and sales agents to advisors and fiduciary advice.

That Less Conflicted Advice

Second, and related to the first, I think the public is better served by receiving advice from somebody who is on their side of the table, rather than somebody who is motivated to win an incentive sales award trip to Tahiti. But for people to get that less conflicted advice, they need to know you're out there and available to provide it.

Finally, I suspect that the return on investment is pretty high for firms that actually track their marketing spending and results.

Carpenter points out that most advisory firms expect to grow their revenue by 10% a year above the "raise" they get from positive market returns. No other profession would dare expect to grow at that rate without putting marketing dollars on the table.

I asked Carpenter how advisors could build a solid marketing program from scratch, and she offered some very basic advice. First, ask yourself, why are you in this business? What makes you passionate about financial planning? Tell your story succinctly and powerfully in writing, and write about the most important changes you want to bring about in the lives of your clients. This simple exercise not only helps prospects relate to your value proposition; it also helps your staff understand the point of the work that they do — and gets them passionate about delivering the services that you're passionate about.

Second, define why clients would want to work with you. What benefits do they get from your services? What are the real-world, human outcomes that you try to bring about? If you look at most advisor websites, the focus is on the firm, not on the client — which is the opposite of what you see in just about every other industry or profession. The typical wealth management website provides basic information about the firm and its credentials, along with the process that it follows and a map of how to get to the office.

Communicate your advice's value in real-world terms. It helps prospects relate to how they can benefit from your services.

But there's a better approach. Tell client stories (anonymous, of course, so you don't run afoul of the testimonial prohibitions), where you describe the presenting symptoms, the type of advice given to solve the problem, the resolution of the problem and the (hopefully positive) outcome.

This does several things: it communicates the value of your advice in real-world terms, and it also helps prospects relate to how they can benefit from your services. The prospect might be facing similar challenges, and would understand that he or she happens to be the type of person you work with. If you can make your story compelling, you've completed what Carpenter calls the "brand infrastructure." Once you've articulated your "why" and the actual real-world value of your services, you can move on to stage two: content creation. This might include white papers that prospects can download from your website or videos where you answer questions that clients have asked you about the new tax law, recent market volatility or 529 plans and college saving strategies. If you develop a regular habit of responding to questions on video every couple of weeks, you'll have a wealth of information on your site in six short months.

Carpenter also suggests some advanced marketing techniques, like gaining a clearer view of your target market by using Facebook analytics, using promoted posts that reach a very specific target audience (for example, people with more than $2 million in assets who own their own businesses and live within 25 miles of your office), and building an audience that wants to subscribe to your content. Those strategies fall a mile or two outside of most advisors' comfort zones, but they aren't as hard to implement as most have come to believe.

A Little More Effort

The interesting thing about these marketing processes is how inexpensive they all are. You don't need to spend 40% of top-line revenues to make the community aware of your services. With a little more effort, you could be generating two, three, five or 10 times as much awareness as you do now and enjoying a return on your marketing investment much greater than anything in the investment markets.

The result would be even faster annexation of market share from the brand-name firms that have dominated financial services with a sales model.

And even more important, it would get more of you interested in filling out the next survey. **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

It's Time to Mix Things Up

Diversity is a hot topic everywhere in corporate America except client portfolios. That may change soon.

By Allan Boomer

I consider myself a fiscal conservative and a social liberal. As an African-American, I have long been sensitive to issues like racial and gender inequality.

The last 12 months have been polarizing in the United States, from the #MeToo movement to tiki torch-bearing white nationalists to Black Lives Matter and the NFL national anthem protests. Our national melting pot is looking like anything but.

In the past few months, my firm has responded to a few competitive requests for proposals for projects involving foundations and endowments.

Seeking Diversity in Investment

What's striking is that in the process we have encountered two unrelated organizations that had a diversity statement within their investment policy statements. These organizations have taken a stand when it comes to investing in strategies devised by women or minorities and funds that are owned by them.

I believe this is a trend that more advisors need to be prepared to be able to discuss with their clients.

When I work with a new client, I always build a custom asset allocation, but I tend to use the same underlying investment vehicles.

While this makes my life as an advisor easier, it is also lazy. I invest in funds and investment vehicles that I know fairly well, and I have grown comfortable with them over time.

Until these recent requests for proposals forced me to search for firms that were owned by women and minorities, it never occurred to me that racial and gender equality was an issue that I should be considering in portfolio construction.

Only 1.1% of the $71.4 trillion asset management industry is being managed by firms owned by women and minorities, according to an industry report on diversity funded by the John S. and James L. Knight Foundation.

That report also found that 25% of women-owned and 28% of minority-owned mutual funds perform in the top quartile of their peer groups on average.

In other words, these funds tend to perform just as well as the industry average. With no statistical difference in the performance of women-owned and minority-owned funds, it is perplexing why they are not managing more money.

Two clients we are working with had a diversity statement within their investment policy statements. I believe this is a trend that more advisors need to be prepared to discuss with their clients.

After conducting its research, the Knight Foundation moved $472 million, or 22% of its endowment, into funds managed by women and minorities.

Some other institutional investors have made moves that are similar.

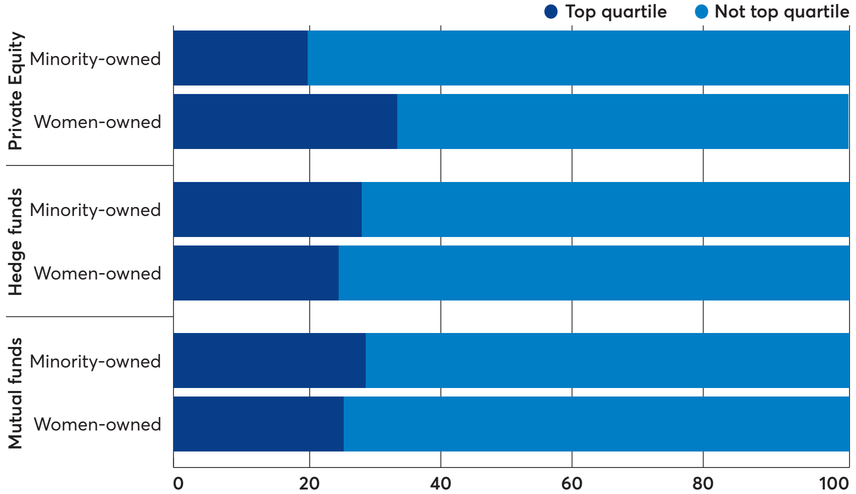
New York has currently placed $11 billion, or 6% of its pension portfolio, with minority- and women-owned management firms.

Meanwhile, the state of Illinois has an aspirational goal that 20% of its $13.9 billion pension fund will be managed by minorities, women and individuals who have disabilities.

So why do advisors ignore women-owned and minority-owned funds? First, the money management industry does not make it easy to screen for or identify minority-owned and women-owned asset managers. Most commercial databases do not track this data.

How Diverse Managers Fared

Percent in the top quartile.



Source: Diverse Asset Management Project Firm Assessment report, May 2017

One reason this niche is ignored by investors: The money management industry does not make it easy to screen for minority- and women-owned asset managers.

In preparing its report, the Knight Foundation had to cobble its lists together using a variety of sources and data compiled by organizations like the National Association of Investment Companies, the Diverse Asset Managers Initiative and the Robert Toigo Foundation. They also found valuable data through the eVestment database.

Second, we have a tendency to favor fund firms that are either household names, or firms that have proactive wholesalers who are in regular communication with us.

And when we screen for new investments, we often omit smaller firms and unrecognized names.

A Surprise in My Own Portfolios

In looking at my own client portfolios, I was surprised to realize that only one out of the 30 or so investment vehicles that I routinely track and recommend was managed by a person of color.

This is despite my firm having plenty of clients who are women and minorities, and being an ethnic minority myself. I don't think I'm a racist or a sexist, but you could not tell by looking at my typical portfolio.

Thankfully, one of the new clients we landed in the RFP process forced me to change my approach.

Only 1.1% of the $71.4 trillion asset management industry is being managed by firms owned by women and minorities, but their performance is in line with the industry. So it's perplexing why they are not managing more money.

Through intentionally looking for a group of diverse managers, I was pleasantly surprised to find a fund manager in Baltimore whose small-cap growth product had a substantially better track record than the one I had been using previously. I also found a strong bond manager.

By the time I had completed my search, I was able to find a minority or women-owned manager for every asset class in the client's portfolio. And, what's even better, we did so without sacrificing manager quality or return potential.

I am not saying that all advisors need to run out and start adding these managers to their portfolios.

But I am preparing you for what's to come — more and more clients, from individuals to foundations, will be asking us questions about the diversity of their investment managers.

This is not an issue where we can continue to be uneducated or caught flat-footed. **FP**

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

Planning for Retirement vs. Planning for Quality of Life

Retirement can feel like a far-off concept, and the deluge of news — and conflicting viewpoints — on the topic could cause confusion and anxiety around how much we should be saving. Hartford Funds' John Diehl, Senior Vice President of Strategic Markets, discusses the three questions identified by the MIT AgeLab that financial advisors can ask their clients to assess how prepared they are to live well in retirement.

What makes retirement feel so elusive?

Starting at a young age, we're encouraged to save for retirement, but most people don't know what exactly they're saving for or how much they should be saving. Retirement is completely unknown until we're actually in it, so it's natural to think of it in the abstract. Compounding the already-ambiguous nature of retirement is the media coverage — there are countless news stories about changes to the traditional retirement landscape, what retirement costs, and at what age it's ideal to retire. The overabundance of information and the distance people feel from retirement can make it seem intangible.

How can an advisor make the concept of retirement more tangible for their clients?

Advisors should help their clients create a vision for their retirement. Finding out what they want, need, and hope for in retirement, and then developing a financial plan around those interests, can help clients realize why they are making the investment in the first place. If they have a custom-built vision to work toward, clients may feel more engaged and motivated to have and execute on the retirement conversation.

What are the questions that financial advisors should ask clients to gauge their retirement vision?

Dr. Joseph F. Coughlin, PhD, Director of the MIT AgeLab, identified three simple questions:

1. Who will change my light bulbs?
2. How will I get an ice cream cone?
3. Who will I have lunch with?

What do these questions have to do with retirement?

Although these questions seem unrelated to retirement, they are designed to enable the advisor to uncover important factors that can help determine their clients' future quality of life. These questions initiate conversations about the clients' plans for where to live, how to get around, and how to spend their time in retirement, so they can be a great starting point for advisors to find out more about their clients and to engage them in planning for a satisfying retirement.

The questions also inject a bit of realism into that vision of retirement. The media counsels us to think about bike rides on the beach and rounds of golf, but we find that things that bring purpose and meaning, and our ability to access those things, actually are what quality of life is all about.

When should an advisor ask clients these questions?

Advisors should incorporate these questions into the comprehensive retirement planning conversations they have with clients. Planning is integral to living longer and better, and being fully prepared for retirement means knowing what to expect from both a quantity and quality standpoint.

To learn more about investor psychology and how financial advisors can better communicate with their clients, go to **hartfordfunds.com**

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Dr. Barbara Nusbaum

Clinical Psychologist, Ph.D., expert and speaker, specializing in the intersection of money, psychology and life.

She has appeared as an expert for *CBS News, Forbes, The Wall Street Journal, Bloomberg, Money Magazine*, *Daily Worth* and *The New York Times.*

Dr. Kristy Archuleta

Program Director of Personal Financial Planning at Kansas State University

Dr. Archuleta's research relates to the area of financial therapy and includes dyadic processes influencing financial and marital satisfaction.

Dr. Vicki Bogan

Professor and Director of the Institute for Behavioral and Household Finance (IBHF) at Cornell University

The mission of the IBHF is research and education in the areas of behavioral finance and household finance with the goal of better understanding and modeling financial behavior.

Tim Sanders

Author and expert on motivation, emotional talent and sales innovation

Tim is the author of five books including the *New York Times* bestseller *Love Is the Killer App: How to Win Business & Influence Friends.* Tim was the Chief Solutions Officer for Yahoo, as well as their Leadership Coach.

Gail Blanke

Celebrated motivational speaker, renowned personal life and executive coach and best selling author, whose vision is to empower women worldwide to lead exceptional lives.

She has appeared on *The Today Show*, *Oprah*, *CBS* and *CNN*.

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Cruz

The Compensation Recipe

Labor costs often make up the largest expense for firms. Follow these approaches for an equitable and rewarding structure.

By Kelli Cruz

In my consulting practice, I am frequently asked a variation of this question: What are the ingredients that go into creating a compensation plan?

Similar to when you're preparing a new recipe for the first time — following the directions to the letter, doing the steps in order and adding all of the ingredients — following a regimented process can be important to creating a compensation plan.

Here is my secret recipe:

1. Determine the firm's compensation philosophy. Before determining salary ranges and creating a compensation structure, first determine your approach to compensation. Ask yourself this question; what mindset drives my pay decisions?

A firm can choose from three general compensation philosophies: to lead, to match or to lag the market. Being a market leader means you pay more for talent than your competitors. Typically, the goal is to gain an advantage by attracting top talent away from others.

If you decide to match the market, it means you pay roughly the same as your competitors, and if an employer lags the market, it is paying less than market rates. Generally, an employer rarely chooses to lag the market as a conscious pay strategy.

Instead, this practice is either discovered after conducting market research, or it may be the result of a limited compensation budget. A firm's attitude toward compensation will drive its decisions through the rest of this process.

An effective compensation philosophy should pass the following quality test: Is the plan equitable? Is it defensible and perceived by employees as fair? Is the plan fiscally sustainable over time? Are the compensation policies legally compliant? Can the firm communicate effectively the philosophy, policy and overall programs to employees?

I believe that roles that have the most impact on end clients should have higher compensation opportunities.

Once the firm's compensation philosophy has passed the quality test, you should identify ways to align compensation with the firm's broader goals.

Some of those goals may include reinforcing teamwork, putting clients first, creating full transparency, providing prudent financial advice and developing long-term relationships.

2. Rank positions in the firm. Creating a clear hierarchy can help define the value or worth of each job in comparison to other jobs in the firm.

As a general rule, I believe that roles that have the most impact on end clients should also have higher compensation opportunities.

For example, advisory roles that include direct interaction with clients should offer the highest compensation.

What about the support staff roles? With roles such as client service administrators, portfolio analysts or operations managers, the best course of action is to

focus on how critical their job function is to servicing and retaining your existing clients.

3. Establish market ranges. Labor costs are usually the largest expense for organizations, and identifying market rates for core positions is important for a variety of reasons. First and foremost, it guides your decision making on hiring, promotions and your firm's broader budget.

Consult industry benchmarking reports. Be sure to always compare job descriptions — never titles alone — when deciding whether a survey job is a good match to your roles. Titles vary widely from firm to firm in terms of scope, size and responsibility.

Read through the report findings for the latest compensation trends. About 90% of RIAs participating in the 2017 compensation study by Fidelity Clearing & Custody Solutions reported giving salary increases as well as bonuses last year.

One-third said that raises ranged from 2% to 4%, while half reported increases of 4% to 10% or more.

Understanding these trends can help you make the right investments with your compensation dollars.

4. Decide on individual compensation levels. Using survey data, develop guidelines to map out your compensation structure.

For example, an inexperienced person who is starting a new role should probably be positioned in the lower 25% of the salary range, whereas more seasoned incumbents may fall around the median.

Only the most senior-level experts — those individuals who truly exceed expectations — should be in the 75th percentile and above.

Unless a competitive labor market warrants increasing the bases above the 75% range, other pay opportunities should only come in the form of incentive pay.

In referencing years of experience of new hires or incumbents, remember to focus only on experience that relates to the employee's current role. For example, if you hire a junior-level advisor who previously worked selling medical equipment, you would not count the years working in the medical field as related experience.

Your firm should pay fairly for experience, knowledge and credentials, regardless of an employee's gender, race or color.

That said, there are some gray areas. For example, let's say you have candidate A who has some related work experience that makes them more attractive than candidate B without any work history.

Bringing in A would mean paying that individual within the median. Bringing in candidate B would mean paying that candidate in the bottom 25% to compensate for their lack of work experience.

It would be up to you to decide if work experience is of more value than saving on your bottom line.

5. Don't forget geographic differences. How can you finalize your compensation recipe?

Most of the available salary data consists of national averages, but some geographical locations, like San Francisco, New York City and Chicago, will be above the national average and others may fall below.

Adjusting for the cost of labor in your area is an important step in determining whether or not your current pay practices are competitive.

If your firm is located in an area that is at or below the national average, consider whether there is an additional premium that you will need to pay to recruit and retain talent for certain positions.

For some firms, that may be a 10% premium or even higher.

It's important to keep in mind that this premium is applied to not only the new hires to the firm, but also to incumbents who have proved their performance over time.

Beware of Internal Equity Issues

Bringing in newly hired employees during talent shortages (and thus, when labor prices may be at a higher rate) may lead to animosity among longer tenured employees.

If your current compensation practices haven't kept up with market pay rates, adjusting pay for existing employees is an important step to solidifying internal pay equity.

Finally, it also goes without saying that your firm should pay fairly for experience, knowledge and credentials, regardless of an employee's gender, race, color, religion or national origin.

Research shows (and my own consulting experience confirms) that much of the gender wage gap occurs because women tend to work in lower paying jobs, whereas men tend to work in more senior, higher-paying jobs.

This is certainly true in the financial industry, where women are still far less likely than men to make it to the highest ranks of leadership.

I highly recommend that firms offer developmental and career progression programs to all employees and align compensation accordingly. **FP**

Kelli Cruz is a Financial Planning *columnist and the founder of Cruz Consulting Group in San Francisco. Follow her on Twitter at @KelliCruzSF.*

Brodeski

Are You Starving Your Firm?

If you want to sell your practice for a big pay day, aim for annual growth of 15%. That means reinvesting intelligently.

By Brent Brodeski

Far too many advisors naively think that their largest asset — their business — has a lot of value and will someday provide them, and their family, a big payday.

But year after year, they underinvest in people, process, technology, marketing and branding. In a sense, they are relentlessly milking their RIA cow (their business) for current cash so they can spend a lot on toys and an indulgent lifestyle.

Sadly, this means they may end up with little business value. Instead having a fatted calf to sell at retirement, they will find themselves with a skinny, malnourished cow.

Advisors point to the fact that their old clients are sticky, which is true. But the problem is that five to 10 years from now, the advisor will be that much older (and less energetic) and their aging clients even older (or maybe dead). The business will have stopped growing, and they may have a firm that is shrinking or, at best, stagnant.

Why is this problematic? A stagnant or shrinking business with an old founder and older clients cannot attract, nor afford, next-generation advisory talent. In turn, it won't attract next-generation clients.

The reality is that the best and brightest next-gen talent will not want to work for a stagnant RIA that fails to make the investments required for long-term success.

As a result, top young talent will migrate to RIAs that provide real opportunities or hang their own shingle and take your clients.

If you really care about your business value, it may be time to stop milking your business so aggressively. Instead, you should reinvest in your business.

In fact, to attract the best clients and create salable enterprise value, you need to invest to grow 15% annually.

So what's required to achieve 15% growth? It depends on the size, stage and nature of your business and on the number of significant owners. But, if you're taking out more than 40% of your revenue (as owner's compensation, benefits, perks and profit distributions), you are probably overmilking.

The cash you milked from your business in the past is mostly irrelevant. Buyers want to understand its prospects for growth.

To provide some rough guidelines about how to budget for growth, here are the investments you should consider making to grow your RIA 15% per year.

People expense. Without great young employees, your business may be a marginal concern when you are gone. It will be unlikely to attract or retain great clients. Thus, you need to invest in your people.

People expenses include nonowner wages, benefits (top talent won't stay if they don't have robust retirement and health care plans), payroll taxes, and employee education and training costs.

For your business to grow 15% annually, you should be spending 10% to 20% of annual revenue on your nonowner advisors.

These junior advisors can leverage your time as lead advisor, freeing you to refocus on business development and advising the most important clients. What's more, they eventually learn to find their own clients, in the process providing marginal growth.

On top of the expense of associate advisors, nonadvisor employees should cost 20% to 30% of annual revenue.

Process development expense. To grow your business, you need replicable, scalable processes that are efficient, embedded in technology and deliver real and perceived value to clients. The goal is to expand the value you offer without just running faster or just throwing more bodies at your clients.

Effective and deliberate use of process allows you to accomplish more with fewer people. This typically means investing in consultants and/or in-house staff who can formalize and continually refine business processes. This should cost you 2% or 3% of revenue yearly.

Technology expense. This category includes hardware, software, licensing, consulting and/or in-house technology staff. Generally, this should cost you 7% to 10% of annual revenues.

This includes the basics (like laptops, servers, cloud-based storage, Microsoft Office and video conferencing software), core enterprise systems (that is, portfolio management, CRM and financial planning software) and fin-tech to make your team more efficient in providing client deliverables.

If you take out more than 40% of the firm's revenue as owner's compensation and perks, you are probably overmilking it.

Just 10 years ago, advisory firms did not have a lot of software options. Today, the challenge is selecting (and actually using) the right technology. But embracing technology is nonnegotiable if you are committed to growth.

Marketing and branding expense. This includes things like advertising, websites, collateral, sponsorships, consultants and possibly dedicated marketing staff.

While many RIAs spend almost nothing here, in our experience, this expense needs to be at least 4 to 7% of annual revenues. Some of the fastest-growing firms spend 10% or more annually to generate leads and attract new clients. By contrast, RIA's that do not invest for growth tend to just fall back on referrals and their increasingly depleted networks of community relationships and centers of influence to generate leads.

You're probably thinking how could my firm be valuable if I spend all this money on people, process, technology, marketing and branding? The reality is that your past profits are only one metric that a buyer considers when calculating what to pay for your RIA.

The cash flow you milked from your business in the past is mostly irrelevant. Buyers want to understand your business's future profitability, its prospects for growth, the likelihood your clients will stay when you're gone and your business' inherent risk.

Still not convinced you need to invest for the future? Consider what happens if your RIA is not growing, or if future growth is uncertain. In this case, it is likely that your clients are at risk of defecting. In such a situation, future buyers will probably pay cents on the dollar at best. At worst, they won't even want your cow.

Having said this, it may actually be OK to choose to overmilk your RIA cow. If you really want to work until you die, if you are not overly concerned about your employees and clients when you're gone, and if you're primarily concerned with living large now (versus creating multigenerational wealth for your family), then milk it like crazy.

Just make sure that you do not drink all of the milk. Save some of it, just as you instruct clients to save for their retirements. Then, if you decide you want to retire after all or if your health does not permit you to work past age 90, you won't have to retire on a park bench when your business does not provide you a big paycheck. **FP**

Looking for 15% Growth?

Aim for these expense levels, as a percentage of revenue.

Non-advisor employees	20% to 30%
Non-owner advisors	10% to 20%
Technology expense	7% to 10%
Marketing and branding expense	4% to 7%
Process development expense	2% to 3%

Source: Savant Capital Management

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A hot M&A market has resulted in cash payments at closings trending "way higher" this year, says consultant David DeVoe, founder and managing partner at DeVoe & Co.

ORANGE PHOTOGRAPHY

More Sway for Firm Sellers

A frenzied M&A market means owners are getting full payment for acquired firms sooner.

By Charles Paikert

The frenzied seller's market for RIAs has doubled the amount of cash that advisory firm owners can command upfront and has shortened the length of time in which sellers are receiving full payment for their firms.

"Everyone is concerned about the end of the bull market, and sellers want to capture the high," says Dave Barton, vice chairman of Mercer Advisors.

The standard model for an RIA M&A deal has been a down payment of 30% cash and 70% paid in promissory notes over five years, depending on the number of clients the firm retains over that period, Vic Esclamado, managing director for DeVoe & Co., said during an address at the firm's M&A + Succession conference in June.

But the amount of cash being paid out at closing has been trending "way higher" in the past year, sometimes even approaching 80%, according to David DeVoe, the consulting firm's founder and managing partner.

Buyers are now paying sellers around 60% to 70% in cash when closing most deals, with the remaining amount paid off within a year, depending on retention rates, Barton said in an interview with *Financial Planning*. "Sellers getting full payment within one year is definitely a sea change," says Barton, who oversees M&A for Mercer.

"Everyone is concerned about the end of the bull market, and sellers want to capture the high," says Dave Barton of Mercer Advisors.

Joe Duran, CEO of United Capital, says he's also seeing as much as 60% cash being paid at closing.

Firm owners should take advantage of the M&A market's "acute seller's moment," Barton says. The risk they're taking by not cashing in now is becoming a seller during a bear market downturn, he adds.

While a recession would certainly depress valuations, DeVoe say, structural changes in the RIA business will continue to keep the volume of M&A deals high for five to eight more years.

DeVoe noted that last year was the fourth successive record year of RIA M&A volume and the 2018 first quarter also set records for most transactions (47) and most sales of established RIAs (30). **FP**

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

BLOOMBERG NEWS

5 IRA Planning Strategies

Given the new rules, now is the time to make sure clients are making the right decisions for next year's tax season.

By Ed Slott

Here's what will happen next year at tax time: Your client's accountant will tell your client about all the tax planning that could have been done last year. But by then, it will be too late.

That's because, unfortunately, many tax preparers are history teachers. They tell you what already happened. Nobody wants to hear woulda, coulda, shoulda.

How about changing this annual annoying scenario?

With all the new tax law changes, every advisor should alert clients about what can be done now to help them avoid taxpayers' remorse next year. Consider these five ideas to stay ahead of the game.

1. Roth conversions. The Tax Cuts and Jobs Act eliminated the ability to reverse or recharacterize a Roth conversion. The new rule applies to conversions done in 2018 and later years.

In past years, if a Roth IRA conversion resulted in an unexpectedly high income-tax bill, or if the client simply changed his or her mind, the conversion could be reversed by recharacterizing the Roth IRA funds back to a traditional IRA.

However, starting in 2018, this option no longer exists.

But there's still a short-term recharacterization planning opportunity, if you act now. The IRS has said that 2017 Roth conversions can still be undone up to Oct. 15, 2018. However, each client needs to consider this option individually.

Advisor investment fees are no longer deductible as an itemized deduction. Let clients know this now and discuss alternatives.

All else being equal, a tax arbitrage strategy can work for your clients, where you reverse last year's Roth conversion and remove the tax bill at last year's higher rates, then replace it with a Roth conversion this year at lower tax rates. That's OK if income is roughly the same each year.

But you'll need to look further, for example, to see what 2017's tax bracket actually was, and how it will compare with his year's lower and more expanded tax brackets. You'll also have to see how well the 2017 converted funds performed.

For instance, if they are up substantially, those are tax-free gains and, in that case, the conversion most likely should not be undone. Why move tax-free gains back to a taxable IRA?

Also, compare the 2017

tax return with a projected 2018 tax return to see if there are any spikes or income aberrations to plan around.

For example, if 2017 included a large business loss that would have made last year's Roth conversion less costly, that conversion is worth keeping. But maybe 2018 will have large deductions or losses that would make a 2018 conversion more tax efficient, as opposed to the 2017 conversion.

When a client is nearing age 70½, it may make sense to delay making charitable contributions until the client can use a QCD.

This reverse-and-replace strategy is a one-time opportunity that ends on the October deadline. After that, any new Roth conversion is permanent.

That certainly doesn't mean conversions should be avoided. The long-term tax-free benefits, after all, are too good to pass up. It just means clients need more planning advice when considering Roth conversions in the future.

Here are three more tax-planning ideas to better project the tax bill for converting an IRA to a Roth IRA:

- Make the conversion late in the year when tax results for the full year can be more accurately estimated, especially given market volatility.
- There's an exception to that advice. If the market takes a big dip earlier in the year, consider converting while stock prices are low.
- Your client may also want to consider making only a partial conversion to minimize the tax costs. A series of annual partial conversions may convert even a large IRA without pushing income into higher brackets. Have the new tax brackets available to better project next year's tax bill.

2. Plan a qualified charitable distribution. This is one of those strategies the client will hear about only next year, when it's too late to take advantage of a QCD for this year.

As a result of the new tax law, more clients will be taking a standard deduction and their charitable gifts will no longer be deductible. But the QCD gives the client a double advantage. They can take the standard deduction and effectively add a charitable deduction on top of that, by having those gifts excluded from income.

The only negative is that the provision isn't available to more taxpayers. It applies only to pretax funds in IRAs, not company plans, and clients must be at least age 70½ at the time of the QCD. A QCD may be as large as $100,000 per person (not per IRA) and can be used to satisfy a client's RMD requirements.

QCD rules prohibit using donor-advised funds or private foundations. Because a QCD is not included in income as a distribution, tax-wise, this is better than taking a taxable IRA distribution and trying to offset it with a charitable contribution deduction.

The QCD does not increase adjusted gross income as a taxable IRA distribution does. Higher AGI can be costly in several ways, for instance by increasing income tax on Social Security benefits and boosting Medicare premiums.

When a client is nearing age 70½, it may make sense to delay making charitable contributions until the client becomes eligible to make use of QCDs.

The tax savings can be significant. Say a client will be in the new 24% tax bracket for 2018 and makes a $10,000 gift using the QCD. If the RMD happens also to be $10,000, then none of that RMD is included in income.

If the client is taking the standard deduction where no charitable contributions are deductible, this $10,000 QCD provides an effective tax deduction and will reduce the 2018 tax bill by $2,400 ($10,000 lower taxable income x 24% tax rate = $2,400 tax savings) compared with giving the old way — without the QCD.

The savings are highest when the client takes the standard deduction, but due to the lower AGI limits, there are still tax savings for clients who itemize.

3. IRA fees no longer deductible. Advisor investment fees are no longer deductible as an itemized deduction. Let clients know this now and provide some alternatives, rather than have their CPA tell them next year at tax time.

The bottom-line strategy here is to pay IRA fees from the IRA. This will provide an effective tax deduction, as the fees are paid from pretax funds.

But never do this from the Roth IRA, as those are after-tax funds. In that case, pay the Roth fees from other taxable funds, even if there is no tax deduction available. Roth fees cannot be paid from the traditional IRA.

2018 Taxable Income Brackets

Marginal Tax Rate	Married Filing Jointly	Single
10%	$0 – $19,050	$0 – $9,525
12%	$19,051 – $77,400	$9,526 – $38,700
22%	$77,401 – $165,000	$38,701 – $82,500
24%	$165,001 – $315,000	$82,501 – $157,500
32%	$315,001 – $400,000	$157,501 – $200,000
35%	$400,001 – $600,000	$200,001 – $500,000
37%	Over $600,000	Over $500,000

Source: Internal Revenue Code

4. Anticipate taxes from the pro rata rule. The IRS aggregates all traditional IRAs, including SEP and Simple IRAs, as one when determining the tax due on distributions. This can result in a surprise tax bill if clients are unprepared, so review this issue with clients now, before doing any Roth conversions or taking other IRA distributions.

As an example, to make a back-door Roth IRA contribution, Jack makes a $5,000 nondeductible contribution to a new traditional IRA and promptly converts it to a Roth IRA.

All the funds in this traditional IRA are after taxes, so he expects no taxable income to result. This would be true if Jack owned only that traditional IRA. But Jack also owns another IRA holding $120,000, consisting entirely of pretax contributions and earnings.

The IRS will aggregate the two IRAs and treat them as one with a balance of $125,000. Of that, $5,000, or 4%, consists of after-tax funds. Thus, Jack's $5,000 Roth IRA conversion will produce $4,800 of taxable income.

The converted funds are 96% taxable and 4% tax free, as will be any distribution from either IRA.

Before making any Roth IRA conversion or IRA distribution, check the impact of the pro rata rule to avoid giving the client an incorrect estimate of the tax bill. This mistake cannot be undone because Roth recharacterizations are no longer available.

5. Plan for RMDs. Check clients' RMD obligations and be sure they are met. Remember, there's a whopping 50% penalty for missing one.

• If a client has multiple traditional IRAs, under the aggregation rules, the year's entire RMD can be taken from any one of those accounts. This can be a way to adjust the amounts left to different beneficiaries or if the IRAs invest in different kinds of assets, to liquidate particular assets first.

• For a client who reaches age 70½ during 2018, the first RMD must be taken by April 1, 2019. For others, RMDs must be taken by year-end. If income will be considerably lower in 2018 than in 2019, it might pay to look at taking all or part of the first RMD in 2018.

• Remember, clients who inherit Roth IRAs as non-spouse beneficiaries are also subject to RMDs.

In conclusion: Now is the time to help your clients plan their 2018 IRA–related tax moves and end the woulda, coulda, shoulda cycle. **FP**

Which Is Best for Tax-Efficient Giving?

It may seem clients would be better off donating appreciated stock than making a QCD, but that is not always true with an older demographic. In general, the QCD is more tax-efficient for clients age 70½ or older.

	QCDs	Appreciated Stock
AGI Effect	QCDs reduce AGI and taxable income.	Appreciated stock reduces only taxable income.
Age Limits	Only available to IRA owners or beneficiaries who are age 70½ or older.	There is no age limit.
Step-Up in Basis	Preserves step-up in basis. Beneficiaries will get a step-up in basis, avoiding income tax on the decedent's lifetime gains.	Step-up in basis is lost on appreciated stock that is donated. If appreciated stock is gifted to charity, clients and/or their heirs will ultimately end up with more taxable IRA distributions.
Limitations	$100,000 per person, per year.	Charitable contributions can be limited based on AGI. Appreciated stock is limited to 30% of AGI. The tax law limit for cash donations is increased from 50% to 60% of AGI. There is a five-year carryover for contributions above AGI limit.

Source: Author

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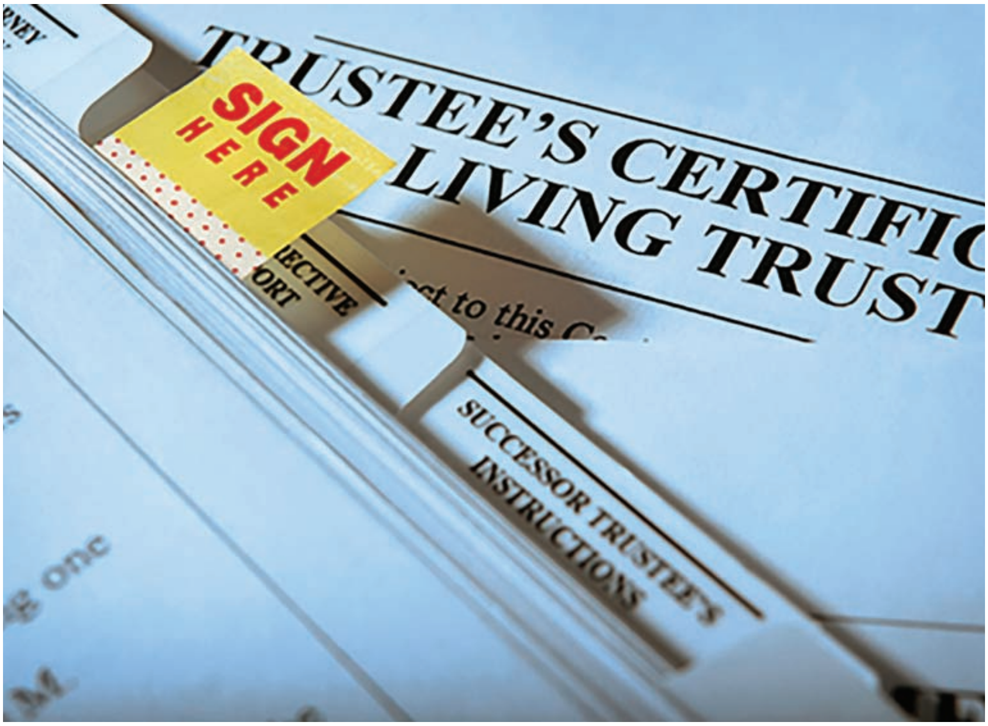

Planners should remain proactively involved in the estate and trust planning process to ensure that a client's plan does not merely recycle older trust strategies.

Ending Bad Trust Advice

Much of the latest instruction is overly simplistic and can do a disservice to clients. Here's a guide to giving better guidance.

By Martin M. Shenkman

Many advisors recommend that clients set up trusts for their children or grandchildren to take advantage of the new large estate-tax exemptions.

But some of the advice given may be outdated, or overly simplistic. To help their clients plan better, advisors first must identify how goals might be different today because of the tax overhaul. Advisors may want to note the following:

• The current estate, gift and GST tax exemption is a whopping $11.8 million, but that amount will be halved in 2026, so clients should try to use this strategy as much as possible before then. Using the exemption requires the client to make a gift that removes funds from the client's estate (in tax parlance, this is a completed gift).

• Does the client need access to the assets they have given away? Without access, many clients will be uncomfortable making large gifts.

• Consult with the client's estate planner and CPA to determine if the client would benefit from using traditional grantor trusts (the client sets up the trust and pays the income tax) or non-grantor trusts (the trust, not the client, pays income tax on trust income).

Some plans, such as those involving life insurance, are best held in grantor trusts. Other plans may seek to circumvent the income tax restrictions in the new law — for example, to maximize charitable contribution deductions, salvage state and local tax deductions on real property or increase the 20% deduction for pass-through business entities, under new Tax Code Section 199A.

Those strategies require the use of non-grantor trusts.

This distinction between grantor and non-grantor trusts is critical, as it requires different provisions. Advisors need to understand the nature of the trust's structure, as it affects not only income tax planning but also asset location decisions.

Achieving any of those goals can be complicated, and doing so requires fine-tuning in the preparation of the plan and trust documents. Too many articles about planning following the 2017 tax law have glossed over all of this.

While advisors don't need to be experts in all the nuances, many are active participants in the tax planning process, and they need to have some understanding of the nuances.

If making a completed gift sounds inconsistent with preserving the client's access to those funds, be advised that it really isn't. It just requires careful planning and drafting.

Don't advise the client to gift outright to an heir, as that provides no protection or access. Instead, have the client gift to a trust to protect the heir and assure the client access.

The ING Trust

A common non-grantor trust plan is the intentionally non-grantor trust, or ING trust. These trusts have been used by high-income taxpayers to shift certain income out of a high-tax state. ING trusts may remain great for ultrahigh-net-worth taxpayers who have used their estate tax exemptions.

But for most wealthy taxpayers, securing exemptions before they decline by half in 2026 may be the best strategy.

These taxpayers need a different type of ING trust than the uber-wealthy use. If an ING approach is used, it must be fundamentally different from all traditional ING trusts, which were incomplete gifts (and thus, did not use the exemption), so transfers constitute completed gifts that use the exemption before it declines.

Otherwise, a fundamental goal of planning will be lost. When a client's attorney recommends a type of trust, planners need to truly understand the nature of that trust.

Location Matters

When clients set up a new trust, remember to ask: What state has been recommended for the trust? Is it the client's home state?

In many cases, the type of planning the client needs will require that the trust be formed in what is called a "trust friendly" jurisdiction.

There are about 17 states, of which Alaska, Delaware, Nevada and South Dakota are the most popular, that permit clients to set up a trust and be a beneficiary of that trust, yet also have the trust assets removed from their estate. This type of trust might be warranted for a single client who wants to assure access to assets transferred by using a self-settled domestic asset protection trust.

ING trusts also need to be formed in these states in order to work.

If a client wants to save state income tax, forming a trust in (or moving an existing trust to) a no-tax state may be essential to the plan.

Forming a trust in a state other than the client's home state will often require naming an institutional trustee in that friendlier state.

For many clients, trusts should be created to last forever, or at least for a very long time.

Planners should not deter such planning for fear of undermining their client relationship.

Rather, advisors should establish relationships with purely administrative trust companies based in the better trust states, so their clients can get the best planning without creating unnecessary complications or competition for the advisor.

Trusts should also often have a trust protector to provide flexibility.

This might include the power to change institutional trustees and states where the trust is governed and administered.

Other persons might be given the power to add a beneficiary or loan the client money from the trust. But be careful, as these may characterize the trust as a grantor trust for income tax purposes (which in some cases is not desirable).

There are also different views as to whether the trust protector should act in a fiduciary capacity (with the level of responsibility of a trustee) or not.

If someone is acting in a fiduciary capacity, they may not be able to add a new beneficiary, for example, as that might dilute the interests of the beneficiaries to whom they have a duty of loyalty.

While advisors do not need to be experts in all these matters, they should at least ask questions to be sure the attorney has considered these issues. Given the current high estate tax exemptions, many clients might benefit from trusts that are created to last forever or at least for a very long time.

The client's generation-skipping transfer exemption should also be allocated to protect gifts to the trust. This can keep the trust assets outside the estate tax system for many generations to come.

More Strategies Than Ever Before

Overall, there are more variations of trusts than ever before, which means clients and their families have more strategies from which they can benefit.

That said, the expansion of these options has also increased the complexity of trusts as planning tools, and identifying the best option for clients is not always an easy task.

Planners should remain proactively involved in the estate and trust planning process to ensure that a client's plan does not merely recycle older trust strategies. Advisors and their clients should take advantage of the latest options to build a tailored plan suited to modern times. **FP**

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Douglas Boneparth is a solo practitioner, but plans to give his pregnant assistant two months' leave at full pay and then allow her to work from home for a month.

JORDAN HOLLENDER

‘THE RIGHT THING TO DO’

Why independent advisories need to have family leave policies that are similar to what large companies offer.

By Andrew Welsch

Three days after giving birth in 2011, advisor Nina O’Neal left the hospital, dropped off her newborn son with family at home and returned to work.

An independent advisor who had launched her practice 18 months earlier, she had clients who needed tending and referrals to follow up on. Her body, however, wasn’t quite ready.

“My pregnancy was horrible. It was debilitating,” she says. After O’Neal left the hospital, she couldn’t sit comfortably. Her hands hurt. She was in “excruciating pain every day.”

Her plight reflected a growing problem in a male-dominated, aging profession that traditionally has required newcomers to devote themselves to building a client roster but now finds itself needing to attract more women and fresh talent. That means it must find ways to be more supportive of advisors who want to start families.

“The industry has not done any favors to young advisors,” says independent advisor Douglas Boneparth.

In 2017, planners overseeing roughly $40 billion in client assets moved to RIAs or IBDs, seeking greater flexibility and freedom to structure their practices as they saw fit. But generally, that freedom offers fewer benefits — including those that might be particularly attractive to younger advisors thinking of building families.

At the same time, many large American companies, including Merrill Lynch and some competitors, are moving to offer more robust maternity and paternity leave benefits. That might leave many breakaway advisors responsible for paying for benefits that Mother Merrill would have covered.

Merrill Lynch offers 16 weeks of paid leave and an additional 10 weeks of unpaid leave to men and women in cases of birth or adoption, a spokeswoman says, for all employees working at least 20 hours weekly and at the firm for at least one year. This policy, introduced in 2016, improved upon an earlier one that offered 12 weeks paid and eight unpaid.

"I feel the benefits at Merrill were, by and large, good," says Sarah Keys, a former Merrill advisor turned independent. She and her three fellow advisors at Cardan Capital Partners, a $700 million RIA in Denver, are currently developing their own maternity and paternity leave policies.

"It would be hard for people to come with us if we had said, yeah, we're going to give you less benefits," Keys says.

Data on wealth management firms' family leave benefits are hard to come by. Cerulli Associates, a leading industry researcher, doesn't keep track of such policies, for example. But based on interviews with advisors, wealth management does not appear to be outperforming national trends.

"Historically, firms that offered financial support did it through disability insurance, and they counted being a mother as a disability," says Sarah Kaplan, of the University of Toronto.

Nationally, 15% of all U.S. workers have access to paid leave and 88% to unpaid leave, according to 2017 data from the federal Bureau of Labor Statistics. This does not include disability leave.

Workers at large firms are more likely to have access to paid leave than those at smaller firms, according to BLS data. A quarter of the workers at companies with 500 or more employees had access to paid leave, compared with 10% at firms with fewer than 50 employees.

A big part of the problem is cost, says Sarah Kaplan, a professor and director of the Institute for Gender and the Economy at the University of Toronto's Rotman School.

"If you have a lot of smaller firms in wealth management, then it will be financially harder for them to make it work," Kaplan says. "And then there's the logistics of it. When you are a small firm, you might not have the resources to hire someone temporarily."

The situation is complicated at firms that have both independent and employee channels. Ameriprise and Raymond James have policies that cover their employee advisors, which numbered 2,176 and 3,053, respectively, at the end of the first quarter.

But both firms have far more independent advisors: Ameriprise has 7,705 and Raymond James has 4,551. All of them are technically independent contractors.

While these brokers get higher payouts than their counterparts on the employee side, they're responsible for providing their own maternity and paternity leave, as well as for other expenses associated with running a business, including real estate and office equipment.

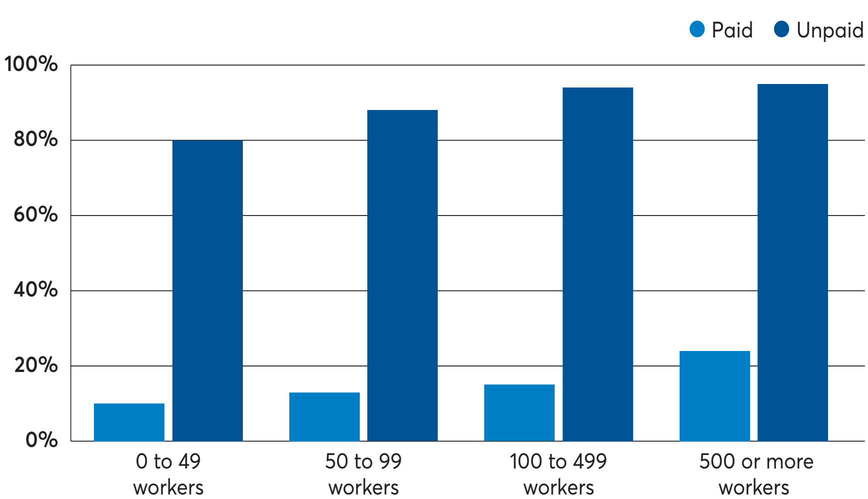
A federal law, the Family Medical Leave Act, guarantees employees the right to 12 weeks of unpaid leave each year. But many people don't take advantage of it because of financial constraints. "Historically, firms that offered financial support did it through disability insurance, and they counted being a mother as a disability," Kaplan says.

State laws vary. Some require nothing of employers. In New York, a new law that took effect in January requires employers, regardless of size, to offer eight weeks of paid leave to their employees, capped at $652 per week.

Some independent advisors are determined to create their own family

Bigger Is Better

Big firms are more likely to offer paid family leave.



Source: U.S. Bureau of Labor Statistics

leave policies. In Douglas Boneparth's case, it goes beyond what's required by law.

Boneparth's New York practice, Bone Fide Wealth consists of him and one assistant. Still, he is offering his assistant, who is pregnant, two months' leave at full pay, plus one month to work from home. He has had the policy since founding Bone Fide Wealth in 2016.

"When you are starting a family, you refocus on how you are building your business," says J.P. Morgan Securities advisor Liz Weikes.

He says he knew from the get-go that "I would want to accommodate that. No. 1, it's the right thing to do. No. 2, it's about taking care of your people and letting them know you want them to grow," Boneparth says.

He was motivated in part by firsthand experience; Boneparth and his wife have a 2-year-old son.

When his assistant is on leave, he intends to handle her work himself. "I know I can cover this by working a little harder," he says.

If more firms were to offer family leave, it might boost the number of women in a profession with far more men. Only a third of all advisors are women, according to BLS data.

"It's not one of those issues that would stop a woman from getting into this profession, but it might prevent a woman from staying in the profession," says Jocelyn Wright, managing partner at Ascension Group and an adjunct professor at the American College of Financial Services. "We have to think about those types of concerns."

This issue goes beyond compensation. "I still received pay. We have recurring revenue," says O'Neal, a partner at Archer Investment Management in Raleigh, North Carolina, and a *Financial Planning* contributing writer.

When she resumed work three days after giving birth. she says, "it wasn't so much about it being paid; it was that there was no one to do the work."

This is not a problem just for advisors at small RIAs, which sometimes number two or three employees. Solo advisors at large firms can face the same dilemma.

Yet some help might be on the way.

Advisor Nina O'Neal, with sons Lowe and Emmett O'Neal, focused on delegating more tasks at her practice after the birth of her second son.

An increasing number of advisors work on teams, and technology makes it easier to work remotely via email, Skype or another tool.

"I worked right up until I had my son, and I made sure when I was home with him that I was always available for a call," notes advisor Liz Weikes. "Sometimes that's all a client needs."

Weikes, who works at J.P. Morgan Securities, the bank's high-end brokerage unit, took six weeks' paid leave when she had her first son.

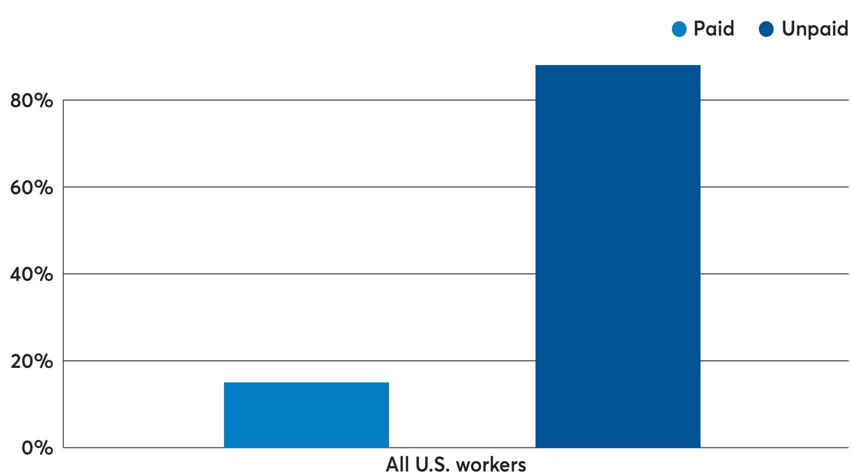
Its parent, JPMorgan, which has roughly 250,000 employees, offers 16 weeks of paid family leave to the primary parental caregiver and two weeks paid to the non-primary parental caregiver. This is on top of other benefits, such as a mentoring program for mothers returning to work, according to a spokeswoman.

Weikes is due to give birth to her second child this summer and plans to take six weeks off, she says.

"Obviously, I'm not looking for new business opportunities while I'm at

Not Covered

Most Americans don't have access to paid family leave.



Source: U.S. Bureau of Labor Statistics

home with a newborn," she says.

Instead, Weikes and other new parents in wealth management say they have rethought their approach to client acquisition.

"When you are starting a family, you refocus on how you are building your business. So instead of going out for drinks after work, you reshuffle, and you say, I'll go out one night a week, and I'll do luncheons instead," she says.

When O'Neal gave birth to her second child, she focused on delegating more tasks and easing her way back into work. "Our second time around, I would check my emails in the afternoon," she says. "Our operations person sent me a daily update to let me know what was going on. I responded with whatever input was needed. I think we were overall better prepared. We actually joke that our business grew more that quarter, so maybe I was better off at home."

'Not a Piece of Cake'

Management also needs to assure employees that they are welcome to take advantage of available benefits.

After the birth of his daughter, advisor Parker Trasborg took paid leave to help give his wife "a bit of a break."

"Coming back to work when you have a little one at home is not a piece of cake," says John C. Abusaid, president and COO of Halbert Hargrove.

In addition to the four months of leave mandated by the state government, the firm, based in Long Beach, California, offers two weeks' vacation at the beginning of maternity or paternity leave, as well as flextime for employees.

"We believe that, if you invest in people, you'll more than get your return in the long run," Abusaid says, noting many of the firm's roughly three dozen employees are at the age at which they could be starting families.

Still, the efforts of a few small independent advisors who are forward thinking might not be enough.

"If you invest in people, you'll more than get your return in the long run," says Halbert Hargrove COO John C. Abusaid.

"It requires leadership from the larger players who can generate the most impact because they have the most dollars," Boneparth says.

He acknowledges that it is a complex issue: Is there a one-size-fits-all approach for an industry with a wide spectrum of business models and firm sizes? But tackling this problem, Boneparth says, would go a long way toward helping independent firms attract and retain young, diverse talent.

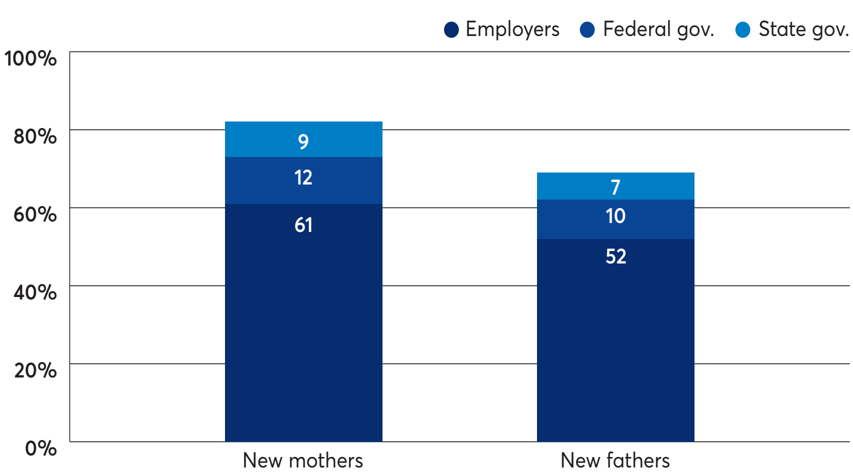
Should more advisors have access to such benefits, they might have experiences similar to that of Parker Trasborg, who took two weeks' paid family leave plus two weeks of vacation after the birth last year of his daughter.

A planner with CJM Wealth Advisers in Fairfax, Virginia, Trasborg says he loved those four weeks.

"I took her out for walks because it was the end of August through September. It gave my wife a bit of a break, since she was the one mostly dealing with the lack of sleep," Trasborg says. "It was probably one of the longest periods of time I'll get to spend with her uninterrupted until maybe I retire." **FP**

Who Should Get Paid Leave?

A majority of Americans say mothers should get paid leave, funded by either employers or the government.



Source: Pew Research Center

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

Wide Wage Gap for Planners

Female advisors earned just 59 cents for every dollar their male peers earned last year. Here are 10 reasons that the advisory profession should be concerned.

By Annalyn Kurtz

The advisory industry has the largest pay disparity of all occupations tracked by the U.S. Department of Labor. Here are 10 things to know about the gap.

ADOBE STOCK

1. The pay gap is huge for advisors. Overall in the U.S. economy, women earned about 82 cents for every dollar male workers earned in 2017.

Critics of that statistic will point out that the wage gap can partly be explained away by the different industries in which women and men tend to work.

Drilling down to specific occupations, however, paints a particularly bleak picture for female advisors: They earned just 59 cents for every dollar their male peers earned last year.

To be clear, that statistic includes only full-time advisors who work 35 hours a week or more, so it's not dramatically distorted by women who may work part time. The pay measure also includes salaries and commissions, but not one-time payments such as annual bonuses.

2. The gap is persistent. The pay gap isn't a statistic to be proud of, and the CFP Board wants the persistent disparity to change.

Earlier this year, the industry group appointed Kathleen McQuiggan, a wealth manager for Artemis Financial Advisors and longtime women's advocate, to serve as a special advisor on gender diversity.

She describes a "myth of the meritocracy" at financial firms. "Every firm is claiming to be a meritocracy," she says, but once firms drill down into their data, they often find a pay gap.

She recommends firms adopt more-transparent compensation structures and standardized job descriptions to eventually get the industry to pay equity.

3. It's better in other areas of finance. While finance in general has historically not been known as an egalitarian place for women, other financial professions report a narrower pay gap than the advisory route.

Female accountants, for example, earn 77 cents on the dollar, and female financial analysts earn 86 cents to a man's dollar.

4. Experience and productivity don't explain it. Perhaps male advisors are more experienced than women? Or maybe they're more productive?

Nope. Those things don't explain the gap, either. Even accounting for experience, revenue production and ownership status, female advisors earned $32,000 yearly less than their male counterparts in 2013, an Aite Group Study commissioned by the CFP Board found.

That number is in line with more recent Labor Department findings, which show female advisors earned some $35,000 less than men in 2017. The median annual earnings for male advisors was $86,424 and for women, just $50,908.

5. Differing skill sets play a role. Business models and differences in compensation structures might be one key factor.

While more men work in commission

roles, a higher percentage of women are paid salaries.

Around one in five female advisors were employed by a bank in 2013, compared with one in 10 men.

That's a meaningful difference, because, as McQuiggan notes, "banks and credit unions pay differently than a Morgan Stanley or a big wirehouse. Banks tend to hire more salaried employees versus the variable and commissioned compensation models."

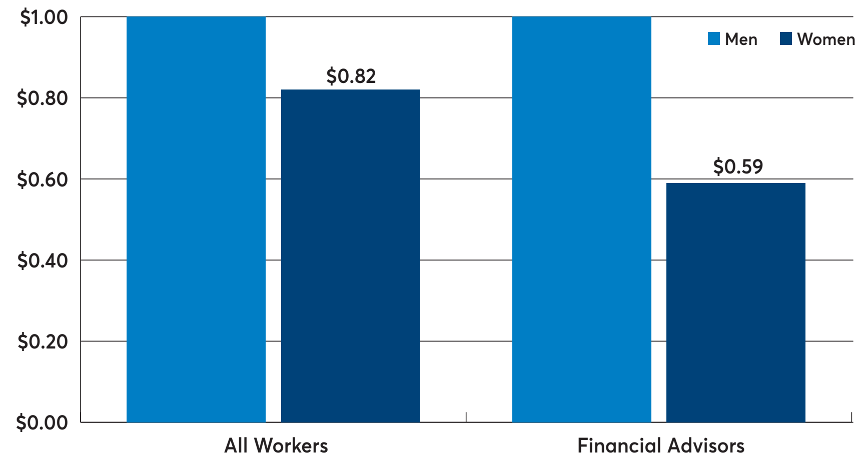
Indeed, in 2013, 32% of female advisors were salaried, versus 13% of men. When a higher proportion of pay is based on commissions or bonuses, there's more room for upward growth.

Around one in five women advisors were employed by a bank in 2013, compared with one in 10 men.

"Women may be more interested in the relationship side of the business, and they may be found less in sales cultures," says Elyse Foster, the founding principal of Harbor Financial Group in Boulder, Colorado. "If that's true, they won't make as much money."

A Large Disparity for Women Advisors

What a female worker earns when a male worker in the same professional group earns $1.



Source: U.S. Bureau of Labor Statistics

Among RIAs, women tend to have less experience in sales and as brokers than their male peers, but more background in operations and administration, a 2014 Charles Schwab survey shows. It's possible those skill sets aren't valued equally.

6. Women still are a minority in the industry. As of 2017, women made up only 33% of full-time advisors, the Labor Department data shows — which is about where it was a decade earlier.

The lack of progress looks even direr if you limit the sample to planners with the CFP designation. Women make up only a quarter of CFP professionals — and that number also hasn't budged in a decade.

Meanwhile, in the RIA space, nearly half of all advisors say they have no female advisors at their firms.

7. There are fewer women at the top. Women are less likely than men to be in top leadership roles. About 39% of women owned all or part of their practice in 2013, versus 63% of men, the Aite Group study shows.

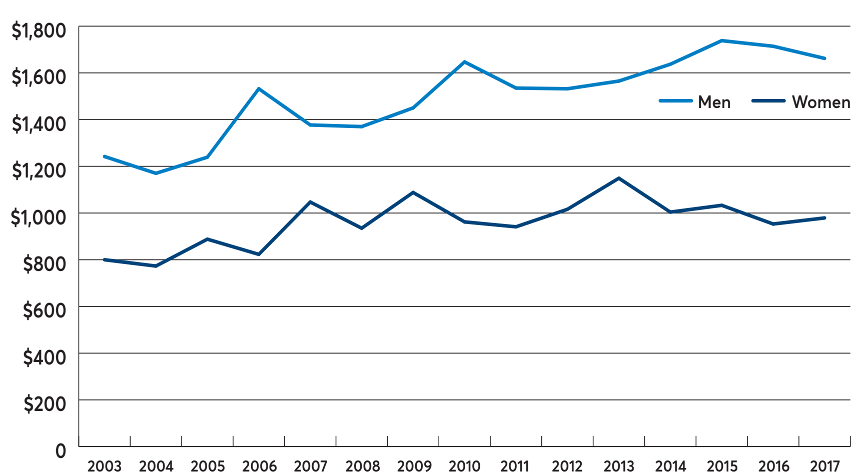
And at RIAs, only 20% of firm equity goes to women, the Schwab study shows.

8. Unfair treatment is part of the problem. When advisors engage in misconduct, women are not judged on equal footing with men.

In fact, a 2017 academic study shows

More of the Same

Median weekly earnings, by gender, for personal financial advisors over the most recent 15 years.



Source: U.S. Bureau of Labor Statistics

female advisors are punished at substantially higher rates relative to male advisors, even when they commit errors that are far less costly.

That study, called "When Harry Fired Sally," also wasn't shy about naming specific firms.

Wells Fargo was the worst offender. There, women were 27% more likely than men to experience a "job separation" after engaging in misconduct.

Next on the list were A.G. Edwards & Sons (which is now part of Wells Fargo) and SunTrust Investment Services.

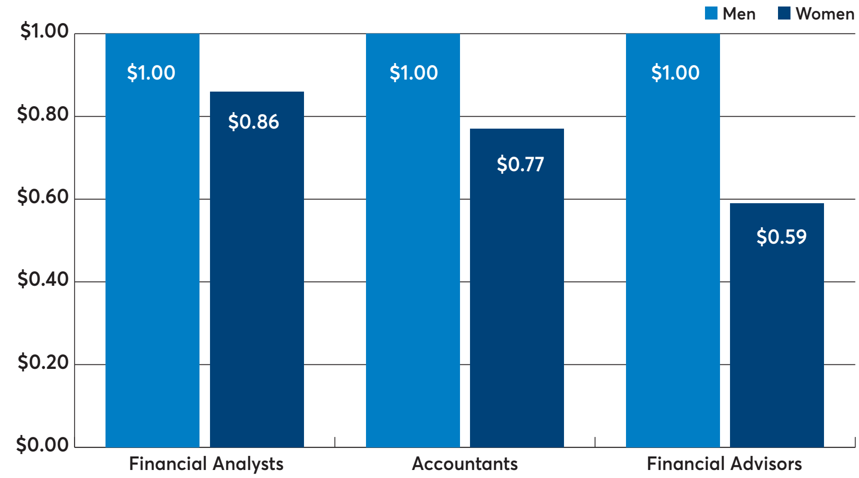
"The cliché of the so-called good-old-boy network ... is not far from the truth," says advisor Erin Hilton.

The authors are convinced the study shows evidence of in-group favoritism, meaning men are nicer to fellow men than they are to women.

It also could explain part of the wage gap, because when women are punished more harshly than men, they're also less likely to get promoted or find another job, says one of the

A Broader View

Advisors experience the largest pay gap in all of finance.



Source: U.S. Bureau of Labor Statistics

authors, Gregor Matvos, a finance professor at the University of Texas at Austin.

When asked about the study, Wells Fargo spokeswoman Kim Yurkovich told *Financial Planning* that the firm had "substantial issues with the authors' methodology, data and variables."

In an email, she said, "As always, our focus is on providing a diverse and inclusive work environment, while we continue to serve the needs of our clients." SunTrust also disagreed with the conclusions of the report, a company spokesman said.

"We conducted our own review and did not find evidence of bias," the spokesman wrote in an email. "We have a strong culture of inclusion and commitment to treating our employees fairly and equitably."

9. Barriers make networking difficult. Erin Hilton, an independent advisor in Austin, Texas, learned how to play golf, hoping she would be able to fit in better with her mostly male peers and potential clients.

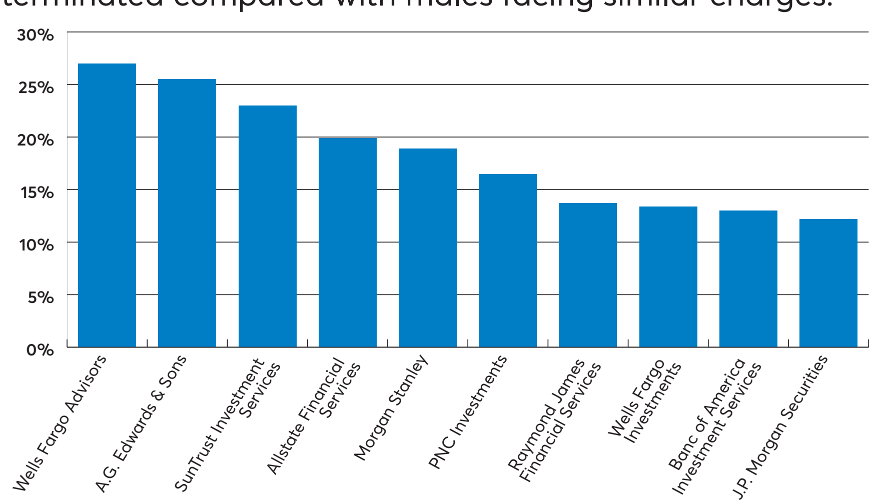
But she was dismayed to find out that at some country clubs in Texas dining rooms are still restricted to men only.

Whether the barriers to women are that blatant or more subtle, male bonding rituals make it harder for women to network among other advisors and attract high-net-worth clients, she says.

"The cliché of the so-called good-old-boy network in which male advisors

Tougher Punishment for Women

The relative probability that female advisors will be terminated compared with males facing similar charges.



Source: "When Harry Fired Sally" by Mark L. Egan, Gregor Matvos and Amit Seru take their clients to the bar to drink scotch and make deals while they smoke cigars and pat each other on the back is not far from the truth," she says. "I am just trying to peek my head into the good-old-boy world."

Reshell Smith, who now owns her own independent practice in Orlando, Florida, describes how male colleagues at a prior job used to go deep-sea fishing on Saturdays.

"You would expect that the financial advisor is going to be a white male," says advisor Reshell Smith.

"Women were not going on that," she says. "We just weren't invited."

As a black woman, Smith says that when she attends industry conferences, she often goes with the expectation that "I am going to be the only one in the room."

Like Hilton, she too has learned how to golf — it's crucial to networking in Florida, she says — but she also puts her own spin on attracting clients.

She hosts "Money and Moscato" wine tastings, which tend to attract more women clients. It's harder to reach prospective male clients, she says, because she doesn't fit the typical image of an advisor.

"You would expect that the financial advisor is going to be a white male," she says. "If there's a choice, I do believe you're going to choose a white male. That's what you're familiar with. That's what you know."

10. Accounts may be passed down differently. In some business models, such as brokerages, it may also be harder for women to have clients passed down from retiring advisors.

In 2002, 17 women filed a class-action suit against American Express Financial Advisors, alleging widespread sex discrimination, including that the most lucrative accounts were disproportionately allocated to men, whether they were new or passed down from departing brokers.

The firm agreed to a $31 million settlement and a consent decree that required the company to create a gender-neutral system for allocating accounts to advisors.

Sometimes, processes can be unfair, and at other times, subtle unconscious biases are at play, McQuiggan says.

"Who gets placed on which teams? Who gets access to which accounts? Who gets to sit where on a certain floor? Who gets to pick the inbound calls of the day?" she asks.

"I do think there are some subtle inequities, not at all firms, but if you peel back the onion and look at internal processes and systems, we find there are still processes and ways that firms could be more conscious in what opportunities are given to what person," she adds.

Some female advisors are optimistic that the fee-only movement and emphasis on the fiduciary standard could encourage more gender parity in the future.

"Our industry is moving more and more away from commissions and toward fee-based planning, and this could be the wave that catches up women more and allows them into the industry," says Renée Snow, chairwoman of the financial planning program at UCSC Extension Silicon Valley, the professional education arm of the University of California, Santa Cruz.

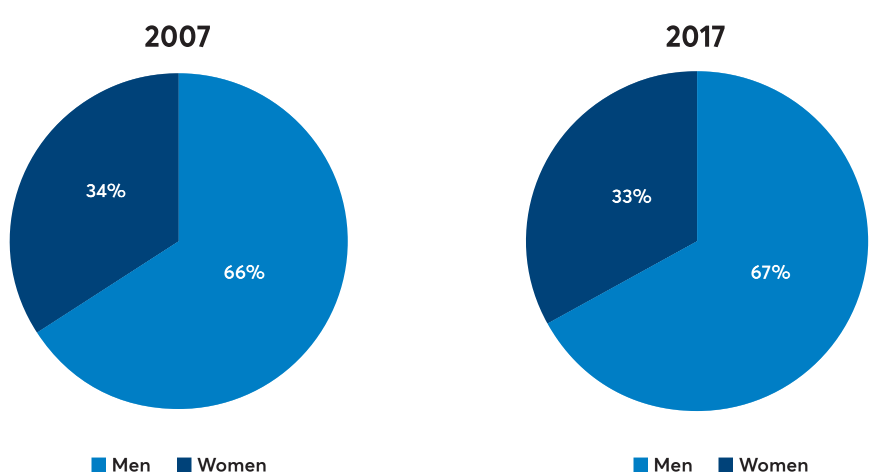
"I'm glad that the industry is moving away from a sales mentality, which is not necessarily in the client's best interest. I think women are going to do very well in that environment," she says.

McQuiggan also notes two other things that might help: More firms are engaging in internal pay equity audits, and laws in some jurisdictions are making it illegal for employers to ask about compensation history.

"We've had this vicious cycle," she says. "But I think those things are leveling the playing field." **FP**

An Unchanging Gender Mix

The numbers for financial advisors in the last decade.



Source: U.S. Bureau of Labor Statistics

__Annalyn Kurtz__ is contributing editor to Financial Planning. *Her work has also appeared in Fortune, The New York Times and CNNMoney. Follow her on Twitter at @annalynkurtz.*

Home and Hearth

Amy Born provides one-on-one pro bono planning intervention to Habitat for Humanity homeowners.

By Ann Marsh

A single mother, a Habitat for Humanity beneficiary, had fallen severely behind on her mortgage payment. Now she risked losing the affordable home she and her special needs daughter relied upon — and all the stability it provided.

"She was ignoring the situation and hoping it would go away," says Amy Born, an advisor with the HighTower firm Acacia Wealth Advisors in Beverly Hills, California, who stepped in after a Habitat employee gently told the woman, "I really think it would be helpful if you would meet with the financial planner that we bring in."

Since 2015, Born has been helping low-income families through a one-on-one pro bono financial planning program designed to help people like the distressed mother, who Born says had paid $20,000 to $30,000 in unexpected medical expenses over a couple of years after her teenage daughter was diagnosed with schizophrenia. Eventually, after Born's prodding, the mother found government assistance that should enable her to keep her home.

Born is now the recipient of the 2018 Pro Bono Award for her contributions to that program, which could serve as a template for free one-on-one planning interventions at Habitat affiliates throughout Southern California and elsewhere in the country.

The award, sponsored jointly by *Financial Planning* and the Foundation for Financial Planning, recognizes planners who have gone above and beyond providing one-on-one pro bono planning to people who otherwise could not afford it.

To support Born's ongoing work, the foundation will contribute $5,000 to Habitat for Humanity of Greater Los Angeles to help more aspiring low-income homeowners in the prohibitively expensive local housing market. The foundation has provided past grants to help the Habitat affiliate bolster the same program's reach.

"For me, doing pro bono work brings me back down to earth, not having to deal with rich-people problems," says Amy Born, 2018 Pro Bono Award winner.

A global nonprofit based in the United States, Habitat for Humanity helps to build, buy and rehabilitate affordable homes for low-income people here and in 70 other countries. It also provides affordable mortgages to aspiring homeowners and invites them to remain part of the Habitat community for the duration of their lives, if they so choose. The affiliate where Born volunteers is one of 1,400 such operations around the country.

Born's history in pro bono planning predates her Habitat work. For the past seven years, she has helped run volunteer activities through the FPA of Los Angeles. From 2014 to 2017, she served as the chapter's pro bono director. For years, she helped organize annual Financial Planning Days at the Los Angeles Public Library; this program, she says, routinely attracts about 250 people seeking help.

When Born began working with Habitat, the one-on-one program provided only sporadic services and lacked sufficient involvement from qualified planners. Not anymore.

"It was a dream probably four years ago. Now it's standard operating procedure," says Francesca DiBrito, vice president of development for Habitat in Los Angeles. "There's an institutionalization that's come because of [Born]. It's not just Amy sitting down with families. It's her helping us to set up a program that's changed our cultural process with our families. I love it."

Born's volunteer hours go into an ecosystem chock-full of educational requirements but greatly in need of hands-on planning.

In Los Angeles, aspiring Habitat homeowners must take 40 hours of financial literacy classes to qualify to buy a newly built or rehabilitated home. They must have good credit and prove they can service a mortgage and maintain a home, financially and logistically, when it comes to repairs.

To that end, they help build their own homes and other Habitat dwellings. They save for their down payment and find traditional bank loans that they supplement with Habitat loans. The latter are often so-called "silent loans," which cost the homeowners nothing for decades but come due all at once with a balloon payment at 30 years. Some homeowners save to pay them off or choose to do so when they sell their homes.

A Critical Piece

However, Habitat's multifaceted program has been missing a critical piece since the greater Los Angeles chapter was founded about 30 years ago, DiBrito says. That's customization.

Until 2015, whenever homeowners or prospective homeowners found themselves flummoxed by seemingly insurmountable financial challenges, Habitat workers had to confess that they lacked the training to help them.

Amy Born at a Culver City, California, site where Habitat for Humanity is building 10 homes.

Enter Born and other FPA volunteers.

Born began teaching the Habitat financial workshops, which are open to all aid recipients, from those who bought homes 10 or 20 years ago to those who expect to do so in the future.

She also has recruited about 10 CFPs to provide one-on-one planning sessions. Personally, she has worked with nearly 50 people individually so far, DiBrito says.

Born also "has connected financial planners to our sister affiliate, Habitat for Humanity in the San Gabriel Valley, which will result in serving more low-income Angelenos in the coming years," DiBrito says. She hopes the program will be adopted by other affiliates countrywide.

Although Born meets typically with people just once, Habitat surveys have shown that the sessions have been impactful, DiBrito says. In some instances, Born does offer to meet with clients for further follow-up.

"She showed us how we could go about paying off our home," says Frances Ramos, 42, who in November moved into a newly built Habitat home in the city of Montebello with her husband and two boys. The couple has a third boy on the way. All told, Ramos and her husband put in 500 hours building their own home and other Habitat homes for a year before they moved into their new place.

Born delivered her planning advice "in a way that was comfortable for me," says Ramos, a stay-at-home mom whose husband makes $42,000 a year, "and she gave us different scenarios. She gave us a plan that works for us and was affordable."

Balance the Challenges

Born says her work with Habitat helps to balance the challenges of her day job, providing planning and investment services to clients with average assets of $20 million.

Most are business owners, with complex needs and predictably demanding attitudes, she says.

"For me," Born says, "doing pro bono work brings me back down to earth, not having to deal with rich-people problems."

A side benefit is that it sharpens her skills advising her wealthy clients' middle class family members.

"It helps with just really practical advice for those who are just starting out," she says.

For Ramos and her family, Habitat enabled them to leave a noisy rented

ANN MARSH

duplex across the street from a drug dealer. Their new, spacious two-story, four-bedroom place has a two-car garage, a garden in front and an artificial lawn in back where their kids can play, all for a mortgage payment of $662 a month.

They live down the street from other Habitat homeowners whose homes they helped build.

Born showed Ramos how she and her husband can save for the balloon payment looming 30 years down the line, she says.

"It was helpful," Ramos says of the input she got from Born. "I needed to hear it from an expert, from a professional that helped me have a sense of security, knowing we would be able to do this with our finances. There's no way I would go and pay a financial

Runner-up: Intelligent Advice

Didi Dorsett uses analytical skills she learned in the military to aid low-income families.

By Ann Marsh

As 2015 drew to a close, DéShaun Monique Stafford and her husband, now both 30, found they didn't have enough cash to pay their rent, a mystifying development since they both brought in steady incomes.

"Usually, if we were short, we could get help from our family, but it was the holiday season and funds were really scarce," Stafford recalls. "We had no idea where our money was going."

At a financial counseling clinic run by Britepaths, a nonprofit in Fairfax, Virginia, which helps low-income people near the nation's capital, Stafford learned she could get free help from a member of the FPA of the National Capital Area.

That's how she met Dolores "Didi" Dorsett, a newly minted CFP and a former intelligence officer with the United States Navy.

An Eye-Opener

With the support of Dorsett and other Britepaths services, Stafford developed a passion for budgeting, paid down debt and built up an emergency reserve that survived the couple's 20% to 30% loss in income after her husband took a different job.

Along the way, she and her husband discovered that as a household, including their two young sons — now 5 and 7 — they were spending $500 a month on fast food. "That was an eye-opener," she says. By cooking at home, they brought that down to $120 right away and, over time, to $50.

"As a former naval intelligence officer, I feel I'm well-qualified to pull together recommendations and guidance based on your current situation," says Dolores "Didi" Dorsett.

"Now eating out is a treat," Stafford says. "I'm so grateful for Didi. I never want to get back to that point where I don't have enough."

For her devotion to serving as many as 75 people, largely through tightly focused one-on-one pro bono planning sessions over three years, Dorsett is the runner-up for the 2018 Pro Bono Award. The award, jointly sponsored by *Financial Planning* and the Foundation for Financial Planning, recognizes planners who have provided exceptional service, advising people who otherwise could not afford to hire them.

"Didi has been our go-to. She is one of those people who combine compassion and laser focus," says Marcelle Miles, Britepaths' financial literacy director. "Bringing together volunteer financial experts with nonprofit clients, our families and the entire community become stronger."

Britepaths provides emergency services to help pay for clients' food, car repairs, rent and utility bills. However, the organization also teaches long-term empowerment via several financial literacy programs.

"The financial literacy piece is one that few nongovernmental organizations have fully developed," Miles says.

When other nonprofits need help from planners, Britepaths connects them with free services from CFPs, CPAs, MBAs and people with finance degrees. It also offers workshops, a financial counseling clinic, single one-on-one planning sessions and a financial mentorship program.

Last year, 64 low-income people worked with Britepaths' financial mentors for six months or longer.

Learning by Shadowing

Dorsett started at the nonprofit by shadowing other planning volunteers, while studying to take the CFP exam, which she passed in 2015.

During those first engagements, she would pull credit reports and otherwise listen in. In that way, she used volunteering to help carve her transition into planner to do this."

For Born, there's satisfaction working for a nonprofit that sets high standards for the people and families it serves, while also providing continuing support over the course of clients' lives.

The goal, DiBrito says, is ambitiously long-term: to break the cycle of poverty for successive generations.

Habitat provides "a hand-up, not a handout," Born says.

"Their goal is a sense of community," she says, "and we are part of that."

This year's runner-up award for the Pro Bono Award goes to a former naval intelligence officer-turned financial planner, Dolores "Didi" Dorsett, who leverages her analytical skills from her military career to help working poor families navigate debt and budgeting challenges near the nation's capital. **FP**

the profession.

After 20 years in the Navy and another seven with a defense contractor, Dorsett says, she was ready for a change. "I wanted something different and more meaningful," she says, "a sense of being able to give back."

Most of her planning sessions are one-offs, without follow-ups, she says, by design. Her approach is similar to the one she uses with her paying clients, most of whom meet with her for only a single full session after an initial "get-acquainted" meeting.

If someone is going through a complex divorce, she refers them to a planner who is a certified divorce financial analyst. If they have a special needs child, she finds a CFP with the right background.

'The Right Path'

Dorsett is a NAPFA member and part of the Garrett Planning Network. When she works with paying clients at her firm, Safe Harbor Financial Advisors in Occoquan, Virginia, she charges clients hourly or by project.

Her clients, many with military backgrounds, tend to come to her at inflection points, often on the cusp of retirement. By gathering the right data and asking the right questions, she intends her short-term guidance to offer long-term impact.

"There's a set of clients out in the world who aren't looking for ongoing advice to manage their assets," she says. "There are a lot of do-it-yourselfers and folks who are just seeking validation that they are on the right path."

Planner Didi Dorsett (right) helped DéShaun Monique Stafford master savvy financial habits.

"As a former naval intelligence officer," she says, "I spent 20 years taking disparate pieces of information and weaving them together into a coherent story that someone could take action on. I feel I'm well-qualified as an analyst to pull together recommendations and guidance based on your current situation."

Dorsett set up Stafford and her husband with Simple, a mobile budgeting app and service offered through numerous banks. Stafford used it to create envelopes into which she began saving for specific future expenses.

Stafford took to tracking her expenses in real time on her mobile device so avidly that "now budgeting is my way of my life," she says today.

That new skill proved invaluable when her husband left a management position and took lower paying work.

By closely watching and managing their cash flow, "it's been OK," according to Stafford, a medical assistant, who does life coaching on the side. "We've even managed to save up an emergency fund, which has been tremendous, but we haven't had to tap into that."

In December, Stafford volunteered to teach a Britepaths class titled Holidays on a Budget. "She's truly been a superstar," Dorsett says.

"I got at least as much from them as they did from me," Dorsett says of the couple. "I'm eternally grateful for getting to meet them. I'm hoping they now will have some new tricks in their toolbox." **FP**

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BRITEPATHS

"Given how much time you're likely to spend in your home office space, it's worth investing your time and resources to get it right," Michael Kitces says.

Managing the Home Office

Many advisors can make the switch from a traditional office to one in their own house.

By Michael Kitces

The internet has afforded professionals a number of convenient innovations, and chief among them may be the ability to turn a 15-mile commute into a 15-foot walk down the hall from the bedroom.

But while shifting to a home office may increase your available time — whether by eliminating the commute or distractions from colleagues — it may not necessarily improve productivity, given the distractions of home and family.

Consequently, to maintain personal productivity in a home office, it's necessary to establish some of the same office structure you might have taken for granted in more-traditional work environments, from having physically separated space to establishing — both for your family and yourself — formal hours for when you should not be interrupted.

At the same time, it's necessary to have a plan for how to recreate the other essential component of office life — interaction with colleagues (or other human beings, in general).

So whether you're leaving a massive office environment, or looking to optimize the home office space you already have, here are some best practices you can consider.

Creating Space

The first key to working from a home office is establishing a physical space that is yours alone.

It may seem obvious, but this space should have walls and, ideally, a door, to establish a clear formal barrier between your personal space and your workspace.

It's necessary to establish an office structure you might've taken for granted in more traditional work environments.

In my case, the home office space is nothing more than an extra bedroom that I took over.

Despite the fact that a bedroom is normally part of our personal family space — and this one is literally right across the hallway from my daughters' room — this is understood by my family to be Daddy's Office.

When I'm in that bedroom and the door is closed, they know that, for all intents and purposes, I'm not home at all. I'm at work.

Part of the effectiveness of housing an office in a discrete physical space is that it helps get you into the right frame of mind.

When you're in your office, you're working … and when you're not, you're not. However, the physical separation is also an important line to draw for your family.

It may seem strange to some people, but if my wife wants to touch base with me during the working day, she will send me a text message.

We may be in the house together, but, again, the point is that, if the door to my home office is closed, I'm not really at home. The home office has to be honored as a workspace at all times. It cannot be a personal or play space.

In other words, do not, at any time, make your office into a rec room, home theater, "man cave" or anything else that isn't related to your work. Using workspace as personal space blurs the work and personal line with family, and this blurring can lead to problems.

For your benefit and everyone else's, it's also important to consider setting formal office hours.

After all, it can be difficult to walk away from work, particularly for those of us who are exceptionally devoted to what we do.

Setting a schedule lets everyone know when it's quitting time.

I aim to start work by 9 a.m., and I typically work until around 6 p.m. Then, I spend dinnertime with family, occasionally coming back to my office to work for another hour or two after 9 p.m., if necessary.

Taking Breaks

Even the hardest workers in a traditional office won't stay put at their desks straight through the day.

That's partly because meetings may arise, and/or colleagues may occasionally interrupt for legitimate (or not-so-legitimate) reasons.

Sometimes it's simply because we crave a brief mental break — an opportunity for some fresh air and a little social interaction.

That's why the office watercooler often becomes a popular gathering place in a traditional setting.

But therein lays one of the big challenges of working from home: There are no colleagues with you.

And while their interruptions can sometimes be disruptive — and may in fact drive some people to consider working from home in the first place — one of the primary reasons people may give up on the home office is the feeling of isolation and lack of social interaction that can accompany this lifestyle.

Accordingly, working effectively from home requires having a plan to create those social connections and spontaneous interactions that help fuel connectedness (and even creativity).

Online team chat apps such as Salesforce Chatter or Slack can also help support social interaction.

My starting point is social media. It's one of the reasons I have become so engaged on various platforms, particularly Twitter.

When I need to take a five-minute mental break, I check in on Twitter, digest the latest buzz and respond to the questions and comments sent to me. Notably, I limit myself to only a five-minute break on social media to keep from getting sucked in.

My next output for social engagement is my family. Because I have a stay-at-home spouse and young children who are not yet in school full time, taking a break from work for a few minutes involves leaving my office, going to our main living area and spending a little time with the family.

Here, again, I must set a mental time limit, but the opportunity to share meaningful time with my family during the course of my day helps keep me balanced in what are otherwise fairly long, intense work days.

Another way to round out social interaction is to be engaged with colleagues through a professional association, such as a local FPA chapter or NAPFA study group.

Going to regular meetings or getting involved as a volunteer can provide a much-needed social output to engage with peers.

It is no coincidence that the bulk of active membership in the advisor association groups consists of people who work for smaller independent firms.

This is why I was involved from the early days of my career in local FPA chapter leadership — as a former chapter president — and in several national committees and conferences.

Nowadays, I'm also traveling to conferences on almost a weekly basis for speaking engagements, which also provides a comfortable balance of social interaction.

Tech Tools

For those who work from a home office but are not solo practitioners, using technology tools to support team interaction can help.

These can include video conferencing tools for regular team meetings, as well as platforms such as Google Hangouts, Slack video or even Sococo to support more impromptu meetings.

Online team chat apps such as Salesforce Chatter or Slack can also help support social interaction. With some of my virtual teams, we have dedicated Slack channels just for daily intra-team work communications, and a separate channel dedicated to sharing entertaining information (whether this relates to work or not).

It's also important to build in time simply to step out for a breath. As often as I can, I'll do a walk-and-talk, where I take a conference call on a headset.

There's also always the local

Practice

coffeehouse if you are looking for a change of pace and an opportunity to work elsewhere for a little while.

Sometimes, there won't be as much time to step out.

To manage days like this, I keep a compact mini-refrigerator in my home office that is stocked with water and a midday snack, so I don't have to risk disrupting my work rhythm.

Investing in Comfort

In traditional offices, we often have to take and accept whatever comforts we're provided.

The good news about a home office space, though, is that you have total control over its design.

Given how much time you're likely to spend in your home office, it's worth investing your time and resources to get it right.

For your benefit and everyone else's living under the same roof, it's also important to consider setting formal office hours.

This is not only to better enjoy a space you'll be spending a lot of time in, but also because doing so will help put you in the optimal frame of mind to be productive.

A good desk and office chair are starting points.

You may also invest in a good standing desk setup if you prefer. In addition, be sure to buy a quality webcam if you'll be doing a lot of video meetings, and bear in mind that you should have an appropriate, professional-looking background, or at least a neutral-colored wall.

And to be reasonably assured of smooth video feeds, make certain your home internet connection is capable of supporting high-speed streaming video

The home studio of Dave Grant, founder of the planning firm Retirement Matters in Carey, Illinois, and a *Financial Planning* columnist.

DAVE GRANT

— generally at least 10Mbps of download and upload speeds.

Also give consideration to how you might build flexibility into your home office. There will always be some space constraints, but even in my home-office-bedroom space, I have made sure to have both a standing desk and, on the other side of the room, a comfortable recliner chair where I can sit and work on my laptop.

What About Client Meetings?

One important caveat to the home office approach is that, just because you have a home office, doesn't mean you will necessarily want to take client meetings there.

In practice, some advisors are happy to meet with clients at their home office, especially if their setup is conducive to having a separate space with its own entrance. Other advisors' setups may not function very well as a client-facing workspace.

These individuals rightly may be concerned that their home office spaces don't communicate the professional credibility they wish to convey.

In my own case, we have several dedicated office spaces for the advisory firm itself, and my home office is just for my own personal productivity.

As a result, any client meetings I cannot join virtually, or take at the client's office can simply be taken in the conference rooms at one of my firm's locations.

For those who work solely from a home office, an increasingly popular option is to rent a meeting room at co-working spaces such Regus or WeWork.

Buying access to conference or meeting rooms on an ad-hoc basis can be much cheaper than actually leasing office space on a full-time basis.

Once you establish what works best for you, it's remarkable how productive you can be. **FP**

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Virtual reality can be a useful educational tool to coax younger people to save money by showing the impact of their investments, or lack thereof.

BLOOMBERG NEWS

VR Makes a Comeback

Virtual reality is seeping into wealth management, and advisors can use it to help clients engage with their finances.

By Sharon Adarlo

When Bill Martin recently donned a pair of virtual reality goggles at Fidelity Investments' client advisory council meeting in Boston, he was skeptical about whether the technology would be of any use for financial advisors.

But after a tour through the virtual world, Martin, chief investment officer at Wichita, Kansas-based Intrust Bank, returned like Neo in "The Matrix," ready to see how deep the rabbit hole goes.

"I'm now convinced that tech-savvy advisors will be incorporating VR into their practices in the not-too-distant future and that the potential applications of this emerging technology are virtually limitless," Martin says.

First a fixture of science fiction and then relegated to video gaming after a disappointing start in the 1990s, VR is making a comeback, and, this time, fintech experts say it will find its place as a tool for advisors to help clients become more educated and engaged with their finances.

VR and its cousin, augmented reality, are just two of the latest gaming technologies seeping into wealth management. Such tools in financial services can involve programs that allow clients to compare themselves with similar demographic cohorts and determine how they are doing in terms of investing, says Sinisa Babcic, senior manager for financial services at Ernst & Young. Scenarios that allow clients to play out how certain financial decisions will impact them is another tool.

Gamification as a whole has seen slower adoption in traditional wealth management, where market leaders have been most interested in techniques that educate the next generation of high-net-worth heirs, Babcic says.

Give a Nudge

Martin says VR can be a useful educational tool to nudge younger people to save money by showing the impact of their investments, or lack thereof.

"For example, a low savings rate could be visualized by showing a future state of struggling to put food on the table or pay for health care services in contrast to a high savings rate scenario that shows a comfortable retirement lifestyle. Retirement plan advisors could use such a tool to positively motivate participant behaviors, leading to improved retirement readiness," Martin says.

Other possible uses for VR involve gauging a client's appetite for risk by simulating market downturns and offering visuals on how that may play out in their lives, Martin adds.

In addition, VR can help train new advisors by simulating client meetings and different, challenging scenarios, making it "much quicker than traditional learn-as-you-go training methods commonly used today," Martin says.

To Educate Better

These various VR use cases have been cooked up at Fidelity Labs, the innovation incubator at Fidelity Investments, says Adam Schouela, who leads the Emerging Technology team at Fidelity Labs. His team has been looking at various financial services applications for VR and AR or a combination of them, specifically for customer education, employee training, data visualization, and collaboration between advisors and clients, or within teams.

"We are seeing how we may educate better our customers and give them a different type of experience to better understand financial concepts," he says.

"We created an application to understand retirement readiness age," Schouela adds. "You are presented with decisions and how these decisions impact the age you are ready to retire. It's to better articulate the impact of those decisions."

Fidelity Labs just introduced Cora, which it calls a VR "agent." Built using Amazon Web Services' VR application Sumerian, Cora can answer questions on how stocks are doing, pull up company charts, and answer questions on how a company is doing. A client can ask Cora questions in a VR chat room. Cora is a prototype, and the VR/AR employee training programs are in

Bill Martin, chief investment officer at Intrust Bank, tries out VR goggles at Fidelity Investments' client advisory council meeting in Boston.

the pilot stage, Schouela says.

For much of the financial services industry, many use cases for VR and AR have been gimmicky or branding exercises up to this point, says Lex Sokolin, global director of fintech strategy at Autonomous Research. Examples abound, such as Ally Bank offering an AR smartphone app where users could catch flying dollar bills.

"I don't think even the big tech firms yet know the right user experience of VR/AR and wealth management is several steps behind," Sokolin says.

"VR is usually good for emotional journeys, so I would see it as a way to get clients to understand what aging, or retirement, or parenthood are like, and to plan around it," Sokolin adds. "AR is going to change our journey through the world, creating digital twins out of everything. We can imagine many overlays for budgeting or emotional software, but this is far from being commercial."

There hasn't been wide adoption of VR and AR technology yet, Babcic notes, the way that smartphones have. Price and refinement are issues. VR goggles range from $5 headsets at Walmart to $399 for an Oculus Rift, while AR glasses, which can retail from $89 to $1,000, are considered ugly and look more like bulky 3D movie goggles by some technology reviewers. When Google tested its AR glasses, Glass, critics widely panned them.

Some advisor tech observers remain skeptical of both technologies.

Bill Winterberg, technology consultant to advisors at FPPad.com, splashed cold water on visualization use cases for VR. The presentations may be counterintuitive and potentially overwhelm clients, he warned.

But he remained open to the possibility of VR and AR becoming mainstays in wealth management. "Maybe we can have this take off in 10 years," Winterberg says. **FP**

Sharon Adarlo *is a* Financial Planning *contributing writer in Newark, New Jersey. She has also written for* The Wall Street Journal, *and about science and engineering for Princeton University. Follow her on Twitter at @sharonadarlo1.*

A Sector to Watch

Including commodities funds in a portfolio may help clients as inflation ticks up.

By Craig L. Israelsen

The U.S. economy has been in a low-inflation environment for the past decade. But in a twist on the old cliché: When it comes to inflation, what goes down must come up.

The average annualized rate of inflation as measured by the Consumer Price Index has been 1.61% since 2008, compared with 3.99% since 1970. If cycles repeat, inflation will rise again. When it does, commodities will be the likely winner, as demonstrated in the chart "Low and High Inflation."

Over the past 48 years (1970-2017), commodities had an average annual gross loss of 1.97% (-4.03% average real return) during the 24 years with below median inflation. By contrast, in the 24 years with above median inflation, commodities had an average annual gross return of 21.98% and an average annual real return of 15.13%.

The performance of commodities here is based on the S&P Goldman Sachs Commodity Index (GSCI). The 48-year historical performance of large-cap U.S. equities in the chart is represented by the S&P 500, while the performance of small-cap U.S. equities was captured by using the Ibbotson Small Companies Index from 1970 to 1978, and the Russell 2000 from 1979 to 2017.

The performance of non-U.S. equities was 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 2017. Cash was represented by three-month Treasury bills.

Clients who own a commodities fund must be able to roll with the leaner times, when returns are negative.

The performance of real estate was measured by using the annual returns of the NAREIT Index from 1970 to 1977. From 1978 to 2017, we used the annual returns of the Dow Jones U.S. Select REIT Index.

If clients own a commodities fund as part of a broadly diversified portfolio, they must be able to roll with the leaner times. From 2009 to 2017, commodities produced an annualized gross return of minus 4.84% (based on the S&P Goldman Sachs Commodity Index).

That's a pretty rough go. But over the past 48 years, the GSCI produced an annualized gross return of 6.99% (2.88% real return). It can certainly be feast or famine with commodities. But when inflation heats up, commodities benefit because rising commodity prices are often the very cause of inflation.

While the GSCI is an important commodity index, there are other broad-basket commodity indexes worthy of consideration, which can be seen in the chart "Big Four."

I'm focusing on these particular indexes because of their prominence as well as the differences in their methodologies. The choice of index matters because the composition of the index influences the allocation that commodity mutual funds and exchange-traded products mimic.

For example, the Thomson Reuters Equal Weight Continuous Commodity Total Return Index has a much lower allocation to energy than the Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Excess Return (17.6% versus 59.4%).

The S&P Goldman Sachs Commodity Index has an even higher allocation to energy, at 65.4% (as of May 2018). Thus, the funds that track each of the different indexes will have markedly different allocations to energy.

The four commodity funds we use are the WisdomTree Continuous Commodity Index Fund (GCC), the iPath Bloomberg Commodity Index Total Return (DJP), the Invesco DB Commodity Index Tracking Fund (DBC) and the iShares S&P GSCI Commodity-Indexed Trust (GSG). DJP is an exchange-traded note; the other three are ETFs.

In 2014 and 2015, DBC and GSG had large losses due to their higher allocations to energy. By contrast, GCC and DJP had relatively better performance based on their smaller energy allocations.

Riding Out the Rough Times

Suffice it to say, 2014 and 2015 were very rough years for oil. The largest commodities fund dedicated to the energy sector is United States Oil Fund (USO). In 2014, USO had a gross return of minus 42.36%, followed by a loss of 45.97% in 2015. As oil prices rebound, however, DBC and GSG may perform better than other broad-basket commodities funds with a smaller allocation to energy.

Allocations to the various commodity sectors differ substantially among the indexes.

Consider also the different allocations to agriculture. The index that GCC tracks has a 47.1% allocation, whereas the index that GSG tracks has a 14.6% allocation. Big difference. The allocation to precious metals also differs widely, with GCC and DJP both over 15%, while GSG is below 4%.

The point is that the allocations to the various commodity sectors differ substantially among the indexes (and the funds that track them), and this affects performance from year to year. For example, in 2010 GCC had a return of 25.4%, whereas GSG had a return of 7.83%. In 2016 DBC was up 18.5%, whereas GCC posted a gain of only 4.27%. (All returns are gross.)

Of course, very few investors have a portfolio that contains only a commodities fund. Thus, the more relevant issue is how well a commodities fund contributes to overall portfolio performance.

We can test this by inserting each of our four commodities funds into a diversified portfolio and measuring overall performance over the past nine years. If GCC was used as the commodities fund in a 12-asset-class portfolio (with an 8.33% allocation each to large-cap U.S. stocks, midcap U.S. stocks, small-cap U.S. stocks, non-U.S. stocks, emerging stocks, real estate, natural resources, commodities, U.S.

Low and High Inflation, 1970-2017

Average gross return and average real return (inflation-adjusted) of major asset classes during below median and above median inflation years.

Average Gross & Real Performance of Various Asset Classes (Gross avg. return / real avg. return)	24 Years With Low Inflation	24 Years With High Inflation
Large-Cap U.S. Stocks	13.08 / 10.80	10.82 / 4.70
Small-Cap U.S. Stocks	13.76 / 11.44	12.61 / 6.26
Non-U.S. Stocks	10.91 / 8.67	11.33 / 5.21
Real Estate	12.58 / 10.30	14.26 / 7.86
Commodities	-1.97 / -4.03	21.98 / 15.13
U.S. Bonds	6.39 / 4.27	9.03 / 3.00
U.S. Cash	2.45 / 0.41	7.39 / 1.33

Source: Steele Mutual Fund Expert, calculations by author

The Big Four

Tracking the performance of four major broad-basket commodity indexes.

Broad Basket Commodity Index	Thomson Reuters Equal Weight Continuous Commodity Total Return Index	Bloomberg Commodity Index Total Return	Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Excess Return	S&P Goldman Sachs Commodity Index
% Allocation in Index to Each Broad Commodity Sector				
Energy	17.6	31.2	59.4	65.4
Agriculture	47.1	30.8	20.2	14.6
Industrial Metals	5.9	16.7	11.4	10.4
Livestock	11.8	5.9	0	5.9
Precious Metals	17.6	15.4	9	3.7
Annual Gross Performance of Four Commodities Funds: 2009-2017				
Commodity Fund That Tracks the Index	GCC	DJP	DBC	GSG
2009	19.62	18.64	15.08	15.14
2010	25.4	16.61	11.86	7.83
2011	-8.89	-14.52	-2.71	-3.25
2012	-3.69	-1.9	3.31	-0.61
2013	-10.92	-10.81	-7.57	-2.04
2014	-11.25	-19.04	-28.18	-33.6
2015	-18.64	-27.81	-27.41	-33.47
2016	4.27	12.65	18.5	9.92
2017	-0.54	1.16	5.12	4.48
9-Year Annualized Gross Return	-1.43	-4.05	-2.77	-5.63

Data source: Steele Mutual Fund Expert and Morningstar.com. Index allocations as of May 2018.

bonds, U.S. TIPS, non-U.S. bonds and cash), the average annualized gross return was 8.59%. This is assuming annual rebalancing at the end of each year.

If DJP was used as the commodities fund, the nine-year annualized gross return was 8.38%. With GSG, the gross return was 8.29%. And if DBC was used, the nine-year gross return was 8.52%.

Clearly, which commodities fund you advise a client to invest in matters on a year-to-year basis if their only portfolio holding is a commodities fund. But in a broadly diversified portfolio, it matters less which commodities fund you select, as shown by the similarity in the overall portfolio. This removes the pressure to pick the right fund. The key is to have exposure to a broad-basket commodities fund that will provide upside performance potential when we experience our next round of inflation. And we will. **FP**

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AUGUST 2018

CE Quiz

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

From: 5 IRA Planning Strategies

1. 2017 Roth conversions can be undone up until this date, per the IRS.

1. April 15, 2019
2. Oct. 15, 2018
3. Dec. 15, 2018
4. Sept. 15, 2018

2. What age must a client be in order to make a charitable gift via QCD?

1. At least 59½
2. At least 50
3. At least 45
4. At least 70½

From: Ending Bad Trust Advice

3. What is the pass-through business deduction under new Tax Code Section 199A?

1. 15%
2. 25%
3. 20%
4. 30%

From: 3 Strategies for Managing Big Capital Gains (online only)

4. What is the highest AGI a client couple, filing jointly, can have and still owe 0% in long-term capital gains?

1. $38,600
2. $65,300
3. $77,200
4. $80,300

5. What is the highest AGI a single client can have before hitting the 20% long-term capital gains bracket?

1. $250,400
2. $479,000
3. $380,100
4. $425,800

From: What Clients Should Know When Claiming Social Security Spousal Benefits (online only)

6. In order to file for a restricted application for Social Security spousal benefits, a client must have been born on or before this date?

1. Jan. 1, 1954
2. Jan. 1, 1960
3. Jan. 1, 1950
4. Jan. 1, 1945

From: Claiming Early Social Security May Not Be the Best Strategy for High Earners (online only)

7. What is the Social Security earnings test limit for 2018?

1. $15,720
2. $16,920
3. $17,040
4. $18,060

From: A Sector to Watch

8. Over the period of 1970 to 2017, what has the average annual real return of commodities been during the 24 years with above median inflation?

1. -1.97%
2. -4.03%
3. 21.98%
4. 15.13%

9. Over the same period, which of these asset classes had the highest real average return during the 24 years with below median inflation?

1. Real estate
2. Small-cap U.S. stocks
3. Large-cap U.S. stocks
4. Non-U.S. stocks

From: Are You Overestimating Clients' Health Care Costs? (online only)

10. What was the median lifetime health care cost from age 70 to death (95 or later, after Medicare premiums) reported in a study by the Employee Benefit Research Institute?

1. Just above $200,000
2. Just above $80,000
3. Just above $100,000
4. Just above $27,000

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Financial Planning

Not Just a Mickey Mouse Job

After graduation, this planner-to-be detoured to Disney World, where the lessons he learned applied more than he'd expected.

By Elijah Essa

After we graduated, many of my fellow students from Western Kentucky University's personal financial planning program immediately sought jobs at financial planning firms and simultaneously commenced studying for the CFP exam.

I decided to take the road less traveled — the road to Orlando, Florida.

For five months after graduation, I worked at Walt Disney World's Animal Kingdom as a cast member. Essentially, I talked with park guests for six nights a week. I had suspected that working at Disney World would have many more parallels with financial planning than first meets the eye. In the end, I was right.

There is a perception that, in Disney World, the customer is always right. I can tell you firsthand that this is not the case, as there were probably hundreds of times when I had to step in to correct a guest.

At Animal Kingdom, for instance, we had a loose policy that guests could not enter a show once it had started. One night, there were a few guests who asked me if they could see the show, which was nearly halfway over. I politely informed them that no more guests were allowed in the theater, to which they promptly cursed in my face and told me they were never coming to Animal Kingdom again.

It would have been easy to tell these people that I was glad I'd never see them again. Instead, I promptly apologized and told them of the second show later that night, and asked if there was any way I could make their experience better. This is not human nature, and I'll admit, it is not always the way I reacted in these situations. But I tried my best to maintain integrity while wearing the Disney uniform, just like I now maintain a fiduciary duty when working with clients. Putting others' needs above your own can be exceptionally difficult, but I know firsthand that it is the most rewarding way of doing business.

One of the other lessons I learned at Disney was about competency.

On my first day at Animal Kingdom, I was given a park map. I studied that map, read the park's history and talked to other cast members about the attractions where they worked. By the end of my time there, I was well prepared to answer most guest questions and do fun things like ask them trivia questions about the park. No matter what job you have, having a high level of competence can dramatically increase your own confidence and enhance a customer's experience. I am seeing the value of this lesson again as I work as a financial planning associate.

Having a high level of competence can dramatically increase your own confidence and enhance a customer's experience.

Financial advisors should treat every client as a Walt Disney World guest who is seeking guidance and answers. Yes, financial planning scenarios are vastly more complex than simple theme park questions, but the notion is the same.

While I may not be telling clients to "have a magical day" around the office, Disney's core mission to make people happy is essentially what I do now, too.

In fact, it is my primary goal. **FP**

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