MEDIA REVIEWS - May 16-31, 2017

It's always fun to read a story about young advisors to watch, and hear the stories of people who are new to the profession. But you should also read, probably in its entirety, Philip Palaveev's article on mergers. If you're thing about merging to gain scale (and maybe a succession plan), then review his process for determining what is and is not a good fit.

I also liked Dan Moisand's column on how to address controversial and confusing topics with your clients. Just take them on, head-on.

Enjoy the week.

Best,

Bob Veres
Inside Information
http://www.bobveres.com
Insider's Forum conference - September 6-8, Nashville, TN
http://www.insidersforum.com

Articles that received a "high" relevance rating:

"A Responsible Investment Robo Welcomes Human Advisors"
by Carol Clouse
***Financial Advisor*,** May 2017
http://www.fa-mag.com/news/a-responsible-investment-robo-welcomes-human-advisors-32515.html?issue=282
Relevance: high
San Francisco-based OpenInvest gives you an online portal to talk about what you care about—reducing fossil fuel emissions, deforestation or LGBT and women's rights in the workplace, among others—and then creates a customized index portfolio with stocks that meet the criteria. You can instantly divest from companies that make headlines for the wrong reasons. Investment minimum: $3,000, with a 50 basis point annual fee. (p. 20)

“Everyone is Merging”
by Philip Palaveev
Financial Advisor, May 2017
http://www.fa-mag.com/news/everyone-is-merging-32491.html?issue=282
Relevance: high
Palaveev is surely right; the real M&A action in the financial planning space is smaller firms entering into alliances for continuity plan purposes, or sometimes merging to create scale. All of this is under the radar while the media focuses on splashy acquisitions of larger firms.

Most of these are not acquisitions, and Palaveev draws the distinction: there is a sincere desire to collaborate. The founders and key executives of the smaller firms become active in the new organization, and there is little cash changing hands. The two parties execute a “paper for paper” arrangement so both are heavily invested in the future success of the merged entity. Meanwhile, the client service history for both firms is respected, and if they are not compatible, there is no merger. This is because the primary concern of the principals is that the clients continue to be taken care of.

There are three types of mergers. A true merger of equals is not common, but they can lead to very strong competitors in the planning space. More common is the merger of a large firm with a smaller one, where the smaller firm is looking for scale. And there are mergers between a firm and a practice, where the solo advisor wants a succession solution.

The key to making it work is for both sides to be open and specific about their plans and goals. If goals are misrepresented during the merger process, the post-deal execution will struggle. Palaveev has seen times when the larger firm has little respect for the smaller one, which means it was really an acquisition disguised to feel friendly. In other times, the owner of the smaller firm talks about the desire to grow and build together, but it turns out he or she really wants to retire and cash out. Ideally, you want leaders who can’t wait to call each other “partner.” This is why you don’t want to start the discussions over deal terms and valuations. You want to start with your shared vision, then share your personal goals, then share data, then do some business planning on what the new organization will look like. Finally, look at the responsibilities of the respective partners and how you’ll make decisions. Finally, dig into the deal terms. (p. 27)

“First Look: RobustWealth”
by Joel Bruckenstein

Financial Advisor, May 2017
http://www.fa-mag.com/news/first-look--robustwealth-32496.html?issue=282
Relevance: high
RobustWealth is another digital wealth management platform for advisors. It was founded by Mike Kerins, who spent eight years at Franklin Templeton before creating an investment and automation solution. You get automated trading and rebalancing, a workable billing module, the ability to provide tactical asset allocation and a client portal. RobustWealth is fully operational on the TD Ameritrade Institutional platform, and in the testing phase with Fidelity.

You start by linking goals to portfolios. If the client's only goal is retirement, there's only one account. Each goal has a target date, if applicable, and an investment framework for the goal. You can apply a model asset allocation across multiple accounts or goals, and RobustWealth will execute all of the trades and rebalance opportunistically as needed. Or you can assign an investment framework for the goal—kind of like a target date fund, with a glide path that takes into account the investor's time horizon and risk tolerance. The platform evaluates portfolio drift daily and rebalances as necessary.

If you turn on the "robo" feature, the platform will invest new money to keep the portfolio in balance and also rebalance to accommodate withdrawals from the portfolio—taking into account the risk, tax implications and cost of trades. You can temporarily or permanently "lock" holdings to avoid violating wash-sale rules or harvesting short-term capital gains.

You can also control how assets are deemed in terms of asset classes (for rebalancing purposes), or even create new categories of asset class for some of your holdings. Clients can get a simplistic wealth projection of their portfolio value over time.

Price? 20 basis points. RobustWealth only charges for the assets where the "robo" feature is turned on. (p. 41)

"Young Advisors to Watch"
by Eric Rasmussen
Financial Advisor, May 2017
http://www.fa-mag.com/news/young-advisors-to-watch-32481.html?issue=282
Relevance: high
The list includes 34-year-old Anna Sergunina, President and Chief Everything Officer (not a misprint) for MainStreet Financial Planning in Burlingame, CA. Her

staff of seven work virtually with clients, mostly on a project basis, mostly hourly. She runs a firm founded by Jim Ludwick, who pioneered hourly planning in his market. The paraplanners who work with the firm are spread across the country.

James Osborne, 34, of Bason Asset Management in Lakewood, CO tells wealthy individuals: “You’re being overcharged.” He now has $155 million in AUM and charges roughly $4,800 a year for someone with a $4 million portfolio.

Peter Lazaroff, 32, of Plancorp in St. Louis, MO publishes his own newsletter (www.peterlazaroff.com) and provides comprehensive planning for younger clients.

Rachel Robasciotti, 38, with Robasciotti & Philipson in San Francisco, CA markets herself through YouTube videos. She rose up from an impoverished upbringing to work in MetLife’s financial planning program, becoming a top producer before going independent at age 25. The firm’s clientele is more than 70% LGBTQ.

Adam Birenbaum, 39, of Buckingham Strategic Wealth in St. Louis, MO functions as the company’s CEO, overseeing a staff of 260 in 14 locations.

Courtnie Nein, 31, of Good Life Financial Advisors in Wyomissing, PA, started off at Waddell & Reed before launching the firm, taking 200 clients and $75 million in assets with them. The firm is affiliated with LPL, and now has $800 million in assets. It does back office work for 70 other advisory firms in 20 states.

Lauryn Williams, 33, of Worth Winning in Dallas, TX was a sprinter and bobsledder in three Olympics, winning silver in the 100 meter dash and gold on the 4x100 relay team. Her firm caters to athletes, who make a lot of money early in their careers but tend to have short careers overall.

Blair DuQuesnay, 35, is Chief Investment Officer at ThirtyNorth Investments in New Orleans, LA. The former ballet dancer started her career at UBS in Manhattan before getting laid off during the financial crisis. She launched her own career catering to younger clients, focusing on student loans, budgeting and savings rather than investment management. She folded that firm into ThirtyNorth four years ago and her clients followed.

Taylor Schulte, 32, of Define Financial in San Diego, CA, worked at Morgan Stanley before starting his own firm and, as he puts it, putting peoples' puzzles in place.

Andrew Silvertsen, 34, is senior financial planner for The Planning Center in Moline, IL. He taught junior high school in the Dominican Republic before joining his current firm, as it was moving from AUM to a flat fee retainer model. Younger advisors now bring in clients under 40. (p. 44)

"Tapping Women Money-Makers"
by Jerilyn Klein Bier
Financial Advisor, May 2017
http://www.fa-mag.com/news/tapping-women-monday-makers-32489.html?issue=282
Relevance: high
On average, women spend fewer years in the workforce (75% of a male career), experience a gender pay gap around 28% and invest more conservatively than men. Add it up, and they typically have to save twice as high a percentage of their income to afford retirement as men. The article calls on employers to consider lifetime income options instead of 401(k)s, to help women face down longevity and overspending risk. And it recommends that advisors learn to move away from conversations about products, to careers, family, philanthropy and estate planning. What are their pain points, and what keeps them awake at night? Where would they like to see themselves in five years?

Working with women also means creating a co-education environment and expanding their financial literacy about inflation, interest rates and the economy. (p. 52)

"What Exactly is a Stock Protection Fund?"
by Thomas Boczar
Financial Advisor, May 2017
http://www.fa-mag.com/news/what-exactly-is-a-stock-protection-fund-32501.html?issue=282
Relevance: high
Corporate executives may receive restricted stock grants or company stock with very low basis. They want to hold onto the stock, but they also want to avoid the possibility that the stock, and a big portion of their net worth, will go in the tank.

They can use puts, collars and prepaid variable forward contracts. Or they can use the stock protection fund, sometimes called a stock protection trust. They allow executives and investors to "mutualize" their holdings, reducing the downside risk while retaining all of the stock's future price appreciation and dividend income. The fund acts as if each investor sold his/her shares on a tax-deferred basis and immediately reinvested the proceeds into a diversified portfolio. The investors also contribute cash to the portfolio, which is invested in U.S. government bonds that mature in five years. Upon termination, the cash pool is distributed to investors whose stocks have lost value on a total return basis. Each investor is thus exposed to the upside of the individual holding, while the downside risk is spread across all the different investors.

The transactions don't constitute a constructive sale or straddle. Gains are long-term capital gains, while losses are currently deductible. Dividends remain qualified and taxed at long-term capital gains rates. (p. 59)

"Dealing With Controversy"
by Dan Moisand
Financial Advisor**,** May 2017
http://www.fa-mag.com/news/dealing-with-controversy-32509.html?issue=282
Relevance: high
This is a variety of observations. In a typical advisory practice, the bull market causes some clients to feel like they're missing out on the easy money and request that the portfolio go all in on U.S. equities, while others are calling this the market top and asking if they can get out altogether. The point: investment management may have been commoditized, but managing client behavior is still a highly-personalized activity.

How you charge clients (AUM vs. retainer vs. hourly) is less important than whether you only discuss investment performance with clients. If all you talk about is the portfolio, then clients will assume they're paying you to manage assets and discount the financial planning work you do.

Safe withdrawal rate studies assume that clients will have the same level of real spending during retirement, but the author doesn't see that in real life. As people live into their 90s, they don't spend anywhere near what they once did.

When you first work with a client, it helps to start the engagement in small, easy ways, to let them get to know you a little.

Be careful about making yourself too relatable, by wearing polo shirts and turning the conference room into a living room. Finances are a serious matter, and professionals can instill confidence by conveying professionalism.

We are told there is a talent shortage in the profession. But whenever his firm lists an opening, there are multiple applicants, including graduates who haven't been able to find a job in financial planning. The conclusion: there aren't that many real financial planners; the talent shortage statistics includes banks and brokerages. (p. 80)

The rest of the articles:

"Advisors to Transition $6 Trillion in 10 Years"
by Staff
Financial Advisor, May 2017
http://www.fa-mag.com/news/advisors-to-transition--6-trillion-in-10-years-32510.html?issue=282
Relevance: low
When the current generation of founding RIAs retires within ten years, Cerulli says that they will pass on $5.8 trillion under management to their successors. But… Typical Cerulli counts as "advisors" some 18,200 wirehouse reps ($2.6 trillion in AUM) and retail bank broker-dealer repos are also included. (p. 15)

"Factor Investing to the Forefront"
by Jeff Schlegel
Financial Advisor, May 2017
http://www.fa-mag.com/news/factor-investing-to-the-forefront-32511.html?issue=282
Relevance: high
The author has noticed a lot of new factor-based investment ETFs hitting the market. A company called Optimal Asset Management in Los Altos, CA has rolled out The Factor Allocator, a free online tool that helps advisors calculate their existing factor exposures in client portfolios. Users can type in the name of any mutual fund in Morningstar's database, and the site will provide the factor-based composition of the fund. Then they may prefer to buy ETFs that will replicate that exposure. (p. 16)

"Look Beyond Business Schools for Your Next Hire"
by Karen DeMasters
Financial Advisor, May 2017
http://www.fa-mag.com/news/look-beyond-business-schools-for-your-next-hire-32512.html?issue=282
Relevance: low
For some reason, the head of practice management at State Street Global is giving you advice about who to hire into your advisory firm. She says that you shouldn't just look at business school and financial planning candidates; instead bring in

young people, women and minorities who will be "good employees for the long term." (p. 18)

"When Wills Become Won'ts"
by Staff
Financial Advisor, May 2017
http://www.fa-mag.com/news/when-wills-become-won-ts-32514.html?issue=282
Relevance: low
BMO Wealth Management has released a report saying that when there is no clear estate plan can lead to family conflict and longstanding feuds, and estate plans are more complicated these days due to divorces and remarriages and couples being unmarried but living together. (p. 18)

"Show Clients Their Spending Habits"
by Mitch Anthony
Financial Advisor, May 2017
http://www.fa-mag.com/news/show-clients-their-spending-habits-32493.html?issue=282
Relevance: moderate
If clients are resistant to taking a hard look at their spending habits, Anthony proposes that you turn to their tax return. An app takes the annual income, money owed in mortgage debt, savings in 401(k) or IRA accounts and deductible contributions, and backs out how much the client spent. Most clients are surprised at how much of their money is consumed by lifestyle spending.

Then they input a different goal: how much they owe will go down, how much they save will go up, they can add to how much they give away, and their lifestyle expenditures will consume a lower percentage of the total. Paying down debt reduces lifestyle but also reduces stress. They could put more of their money into an account that will grow their abundance. The process facilitates better decision-making. (p. 31)

"Becoming a High-Net-Worth Thought Leader"
by Russ Alan Prince and Brett Van Bortel
Financial Advisor, May 2017
http://www.fa-mag.com/news/becoming-a-high-net-worth-thought-leader-32494.html?issue=282
Relevance: low
To get a leg up on the increasing competition, become a high-net-worth thought leader. Anybody, we are told, can do it! You just curate the content of others, including "state-of-the-art solutions" (which are not articulated), or insights into what the "super-rich" are doing and how the "less affluent" can get to that same place. Also enhanced lifestyle opportunities like concierge medicine. Just find

technical resources that can deliver services and products and send out that information. Simple! And you can also deliver this information on social media and in presentations. More questionable: the authors suggest that you deliver this material in articles with your byline, sent out by email. Is that not plagiarism?

You should also cultivate centers of influence, and ask them to provide this content that you can repackage and send out under your own name.

The benefits to this approach are more chances to "do business" with "the wealthy," meaningfully greater "affluent client retention" and the "ability to considerably speed up the sales process." Several times, the article mentions private placement life insurance. (p. 33)

"Finding a Trust an Advisor Can Trust"
by Carol Clouse
***Financial Advisor*,** May 2017
http://www.fa-mag.com/news/finding-a-trust-an-advisor-can-trust-32495.html?issue=282
Relevance: moderate
Many trust companies offer their own advisory services, and when a client dies and the assets roll over, they take over the relationship. This article talks about independent trust companies that are advisor-friendly: you manage the trust assets and keep the relationship into the next generation. The work under a directed trust, where the investment advisory fee is separate from the corporate trustee fee.

The article mentions Premier Trust in Las Vegas, which works with 3,000 advisors; National Advisors Trust Company in Kansas City, MO; Reliance Trust Company; and AdvisorTrust, Inc. in Sioux Falls, SD. (p. 37)

"Cautious Optimism for Emerging Markets"
by Marla Brill
***Financial Advisor*,** May 2017
http://www.fa-mag.com/news/cautious-optimism-for--emerging-markets-32503.html?issue=282
Relevance: low
A profile of the JPMorgan Emerging Markets Equity fund. (p. 62)

"Beating Conventional Wisdom Using Roth IRAs"
by Bill Reichenstein and Bill Miller
***Financial Advisor*,** May 2017
http://www.fa-mag.com/news/beating-conventional-wisdom-using-roth-iras-32504.html?issue=282
Relevance: moderate

You would like to avoid high taxation of Social Security benefits, which means that you would like to keep your tax bracket in retirement. The authors recommend that you have clients delay Social Security benefits until age 70, and take money out of the IRA right up to the 15% tax rate threshold, withdrawing additional monies from the taxable account. Once the taxable account is exhausted, she takes money out of the tax-deferred account plus makes withdrawals from the IRA to do Roth conversions. Eventually, the Roth is used to supplement IRA withdrawals. The upshot is that the client never pays taxes at more than 15% of her income, and slightly less than 50% of her Social Security benefits are taxed. (p. 65)

"The Survivor"
by Ben Mattlin
Financial Advisor, May 2017
http://www.fa-mag.com/news/the-survivor-32508.html?issue=282
Relevance: low
Survivorship life insurance, or second-to-die policies, pay death benefits only after the death of a second party. For people whose assets don't fit under the $10.98 million estate tax exclusion, this benefit can pay the estate tax. But many advisors are waiting to see if the Republican Congress does away with the estate tax altogether. (p. 69)