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MEDIA REVIEWS - July 8-16, 2017

I've never understood the value of Investment Advisor's contest for best separately-managed account managers, so of course I would think this month's cover story is kind of irrelevant. The fact that the list is different every year leads me to wonder if there's any persistent value here, or if it's all about the hot manager of the moment.

Better to skip to Mark Tibergien's discussion of operational leverage in an advisory firm, and Angie Herbers' column on the need to build a solid foundation before you undertake a growth plan.

Meanwhile, you should know one more thing about the Insider's Forum conference that we're putting on in September. We have a full track devoted to operations and ops professionals, run by ops professionals, and as part of that there will be a group meeting of ops professionals which will be run by the HIFON (High Impact Financial Operations Network) study group.

HIFON has been incredibly valuable for its members, who compare notes on software, best practices, workflows and really everything that makes a financial planning back office more efficient. We're hoping to attract the operations leaders from the leading planning firms, and provide them with value they can bring back to your firm, plus ongoing value from the connections they make while they're there.

If you haven't considered taking (or sending) a key ops staff member, please consider it now. The attendee link is: www.insidersforum.com, and they qualify for the $150 discount you receive with the 2017INSIDER coupon code.

Have a great 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:

"When Debt is Good"
by Mark Tibergien
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/when-debt-is-good
Relevance: high
This column offers some guidelines on how to take on debt. Debt is a prudent way to fund an appreciating asset, but a terrible way to finance a depreciating asset. Equity is the most expensive form of financing. An advisory firm operating as a real business needs to know how to manage the balance sheet, which compares your assets to how you find your growth—including debt and equity. He gives the formula for the current ratio (current assets divided by current liabilities, which means the higher the ratio, the more liquid the company), and the debt/equity ratio (total liabilities divided by total equity; the higher the ratio, the more the business is at risk).

Why is all this important? As firms grow, so too grows the gap between when services are rendered and when fees are paid. The costs of staff, rent, utilities and other overhead must be paid as they're incurred. If cash on hand is not sufficient to meet the firm's obligations, the advisor will borrow from a line of credit. You want to ensure that current liabilities do not exceed current assets.

Tibergien warns against using short-term debt to fund longer-term growth needs. And he talks about equity, how firms who are seeking funds to fuel their growth will often offer equity instead of debt, which minimizes their risk. However, the private equity buyer will typically demand a higher return on their investment than a bank would, and the payment lasts forever. There is a similar risk if you overpay for the acquisition of another firm; the acquisition might never generate the revenues that are required to pay back the loan you took out to buy it.

Advisors need to be more sophisticated about debt, equity, their balance sheets and financing growth. (p. 31)

"Not So Fast, Tortoise"
by Angie Herbers
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/not-so-fast-tortoise
Relevance: high
The gist of this column is that advisory firms need to build a solid foundation before they turn their attention to growth strategies—and sometimes firm owners resist this important first step.

What is a solid foundation? Take a realistic look at your business and identify what you want to happen over the next few years. Do you have the right people—and if so, are they in the right jobs? Do they have enough of the right training and equipment? What about your clients; are they ideal clients? Do you have the right strategic partners and outside support? Fix anything where you answered no.

Then see if two or three clients represent an outsized portion of your total revenues. If so, you need to diversify with more smaller clients. And meanwhile, focus on the few essential services that your clients really want. In most cases, that means face-to-face communications focused on client issues, but Herbers has found that many advisors are cutting back on client time to focus on reports, new technology and reports.

Now, finally, you're ready to start your growth plan. (p. 37)

"What Advisors Learned From the WannaCry Attack"
by Dan Skiles
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/what-advisors-learned-from-the-wannacry-attack
Relevance: high
The May ransomware cyberattack spread instantly around the world, due to many people not updating their operating systems and anti-virus software. So make sure your systems are up-to-date with the latest bug fixes and security protections. If you have older computers running older operating systems, disconnect them at night or isolate them from your network or from the Internet. Know what data is

stored on your personal devices, and encourage staff to use their own smartphones or tablets for their personal technology needs, to screen your company from cyberattacks that originate from personal email, social media or other channels.

When you experience a large-scale attack, you should receive an alert from your IT provider; if not, look for a better one. Other lessons: be a continual leader, always be in control, create multiple options, commit to continual personal growth, be comfortable in your own skin, and always have something to prove. Rodgers also said he was always listening to what the coaches and players say about certain strategies or plays they like to run. (p. 43)

"The DOL Fiduciary Rule: Managing the Transition Period"
by Tom Giachetti
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/the-dol-fiduciary-rule-managing-the-transition-per
Relevance: high
Advisors must adhere to the impartial conduct standards, provide a written fiduciary acknowledgement and designate a person at the firm responsible for addressing material conflicts of interest. They must give advice that is in the best interest of the retirement investor, charge no more than reasonable compensation and make no misleading statements about investment transactions, compensation and conflicts of interest. (p. 44)

"7 Steps to Attracting Your Clients' Kids"
by Cam Marston
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/7-steps-to-attracting-your-clients-kids
Relevance: high
Step one: take your clients back to when they were the age their kids are now. Step two: Help them relive how they felt financially. Step three: ask about their children's financial future, and whether they're financially literate. Step four: Ask them to imagine how nice it would be if they didn't have to go through the worries and uncertainties that your clients lived through. Step five: contact the children by sending an email to the parents, and ask them to forward the message to the kids. Then recap with them the conversation in step four, and offer free services. Step six: email each of the children directly and show how you help clients achieve the future they want for themselves. Ask how they prefer to be contacted. Step seven: if they reply affirmatively to your email, schedule a meeting or phone call. Ask: "So, what do I need to know about you?" Let them talk, and then treat them as a Tier II client. (p. 48)

The rest of the articles:

"Washington Abuzz with New CFP Board Standards, Treasury Reg Reform Moves"
by Melanie Waddell
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/washington-abuzz-with-new-cfp-board-standards-trea
Relevance: moderate
Republican Senate and House leadership has introduced legislation that would overturn the DOL fiduciary rule, while the Labor Department has requested yet another round of public input on the rule with an eye to weakening the fiduciary provisions. The Republican leadership in the House has passed the Financial Choice Act, which would overturn Dodd-Frank in its entirety. The CFP Board issued draft revisions to its Code of Conduct and Standards of Professional Conduct, requiring CFP Professionals to act as fiduciaries "at all times." (p. 11)

"How ETFs and Indexing Took Over Active Management"
by Daniel Kern
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/how-etfs-and-indexing-took-over-active-management
Relevance: moderate
The market-cap-weighted index funds have better track records than the aggregate actively-managed funds, and meanwhile there's all this innovation in smart beta ETFs that is also attracting investors. Factor-based strategies are boosted by academic research into outperformance of value, small cap, low volatility, high-quality, momentum and high dividend investments.

The author notes a concern that market segments dominated by index investors will crowd out the active managers who provide vital price-setting and liquidity functions. However, he believes there continues to be an ample supply of active investors. Meanwhile, others worry that smart beta and factor advantages will be lost as more money pours into them.

The conclusion: index funds may not always be a superior solution to active management. Some indices are not reflective of the underlying opportunity set. Some of the best active managers cost less in expense ratio than some of the smart beta ETFs. You should understand the portfolio turnover and tax implications of whichever strategy you choose. (p. 13)

“What is Alpha and Why Do We Care?”
by Cliff Stanton
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/what-is-alpha-and-why-do-we-care
Relevance: low
Some of what we used to call “alpha” has been shown to be systematic exposure to an outperforming factor. The column pivots to firms that are creating passive products, questioning whether they are really in the investment business if they’re not making active investment decisions. Then it says that skilled investors add value in risk management. The author decries closet indexing, and declares that generating alpha is the industry’s true business. (p. 16)

“The Long Game”
by Danielle Andrus, Bernice Napach and Ginger Szala
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/the-long-game-2017-sma-managers-of-the-year
Relevance: moderate
This cover story profiles the magazine’s 2017 SMA Managers of the Year, the separate account managers who were ranked highest by Envestnet/PMC. Grand winner: Todd Solomon of Congress Asset Management, says he focuses on growth at a reasonable risk, favoring high-quality companies with strong earnings and cash flows. Margaret Vitrano of ClearBridge Investments wins the large-cap growth category; she says she selects companies with strong business models, but with a valuation sensitivity. Andy Bischel of ValuePlus is another large-cap winner; he uses relative dividend yield to “build a portfolio of high-value stocks.”

Jon Christensen of Kayne Anderson Rudnick, winner of the small-cap sustainable growth category, looks at businesses that have a sustainable advantage over long-term economic cycles. James Donald of Lazard Asset Management, winner of the emerging markets equity category, has a staff of 70 in 14 countries who look for mispriced securities that have high and stable levels of profitability.

Dan Myer of Pacific Income Advisors, winner of the fixed income award, diversifies client funds over different sectors. Brendan Clark, of Clark Capital Management, wins the “strategist” award with an approach that emphasizes diversification and “a hyper focus on risk management.” Matt Patsky of Trillium asset Management, winner of the “impact” (SRI) category, looks for leadership teams that have made environmental, social and governance factors a priority.

The fund works to change firms' behavior to bring them in line with common practices.

Finally, Libby Toudouze, of Cushing Asset Management, invests in energy—specifically master limited partnerships that connect energy products with end users. (p. 18)

"Thinking Boomer"
by Olivia Mellan and Sherry Christie
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/thinking-boomer-understanding-this-generation-and
Relevance: low
The authors divide baby boomers into those currently age 61-71 from those age 53 to 61—for some reason… We are told that the former are mostly retired while the latter are in the late stages of their careers. The older boomers led a charmed life, and are workaholics. They are under a lot of stress over retired life. They may not be inclined to leave an inheritance to their kids. Trailing boomers tend to be more pessimistic about their future, and they believe their financial security depends completely on them.

If you want to connect with boomers, make them feel valued. (Does this not apply to everybody?) Recognize their success. Help them manage their life. Demonstrate what you can do for them. Pretty lame… (p. 26)

"The Debate over "New Evidence" and the Fiduciary Rule"
by Melanie Waddell
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/the-debate-over-new-evidence-and-the-fiduciary-rul
Relevance: moderate
A month ago, Waddell published an uncritical review of the most self-serving study in history: the Chamber of Commerce's "research" showing that the DOL fiduciary rule harmed small savers. She reports here that Harold Evensky called her on it, but her report comes only after she uncritically reiterates the Chamber's "findings" all over again.

She notes that Evensky says that brokers do not provide investment advice; indeed, they've argued in court, in efforts to overturn the DOL rule, that their advice is solely incidental to the sale of products. What advice are small savers losing? Evensky also questions the Chamber's methodology, but Waddell doesn't go there. Instead, she defends herself, saying she quoted Barbara Roper of the Consumer

Federation of America in her original article. She says she's covered Phyllis Borzi's and Tom Perez's views (both then with the DOL), and generally seems defensive about carrying water for the anti-fiduciary forces.

Then she quotes two seemingly-random advisors out of a very large sample of her readers: Robert Schmansky, founder of Clear Financial Advisors in Livonia, Michigan (a CFP Board representative), saying that the fiduciary rule will harm the exact people it claims to help, and Edward Vargo, a non-fee-only advisor at Burning River Advisory Group in Westlake, OH assuring her that many lower-income clients could be left without an advisor. This column was written to defend herself from the nearly 100% of fee-only advisors who think she's strongly on the side of the sales industry, and to convince us that there are many fiduciary advisors who would rather not be required to be fiduciaries. (p. 33)

"Back to the Future"
by Bob Clark
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/back-to-the-future-what-boomers-can-teach-us-about
Relevance: moderate
Members of The Greatest Generation, who suffered through the 1929 market crash and the subsequent Great Depression, remained distrustful of financial institutions and risky equities right to the end. Baby boomers experienced the hyper-inflation of the 1970s, which caused the price of consumer items to rise every year. They learned to buy today because tomorrow your money would be worth less. Millennial investors were profoundly influenced by the 2008 downturn, and they are saving more for travel and experiences than retirement—and they once again are suspicious of the stock market. (p. 35)

"DC Plans' Goal is to Help Employees Retire On Time"
by Danielle Andrus
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/dc-plans-goal-is-to-help-employees-retire-on-time
Relevance: moderate
A survey conducted by T. Rowe Price indicates that the largest plan sponsors feel a sense of duty to participants, and they believe that helping employees save for retirement is an important goal. Yet fewer than half of the plans have a formal way to measure participants' retirement preparedness.

Other goals: retaining talent and recruiting new employees. And: getting older employees out of the company gently. Almost 2/3rds of the plans ranked "enabling workers to retire at their target age" as a major goal. (p. 39)

"Lessons from a Quarterback, Technologist & Treasury Secretary"
by Janet Levaux
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/lessons-from-a-quarterback-technologist-treasury
Relevance: moderate
The Pershing INSITE 2017 conference featured Green Bay Packers quarterback Aaron Rodgers, who said you have to be self-motivated, and find your sources of motivation and harness them. Life is about continuous improvement.

Uber co-founder Oscar Salazar said being bored is the trigger of creativity. He said that people have many biases that influence decisions; technology can improve decision-making by taking some of the bias out of it. Former Treasury secretary Jack Lew said that economists and policymakers cannot trust formulas and machines. Humans must look at information critically. The key to the economy of the future is to be flexible, because whatever you trained for will not be the same in the next 20 or 30 years. (p. 41)

"While Your Clients Are Away, Cybercriminals Will Prey"
by Fran O'Brien
Investment Advisor, July 2017
http://www.thinkadvisor.com/2017/07/03/while-your-clients-are-away-cybercriminals-will-pr
Relevance: low
Tell clients not to discuss their travel plans on social media, so criminals won't know they're away from the house. Be wary of using public Wi-Fi. Using ATMs to get cash at a bank branch is safer than using standalone ATMs. Using a credit card for purchase is safer than using a debit card. Turn off home computers that might be susceptible to hacking. Back up all important data. Register for the State Department's Smart Traveler Enrollment Program (https://step.state.gov/). (p. 45)