MEDIA REVIEWS - May 8-15, 2020

Financial Planning magazine has become an interesting case-study. The columnists are by and large excellent, providing real-world insight and a certain degree of wisdom. But the staff-written and editor-supervised pieces are generally not relevant, naive or things you already knew years ago.

Case in point: Carolyn McClanahan talks about the impending shift in fee models, and then offers insight into how she justifies quarterly retainer fees for clients. At the end, she says you definitely shouldn’t change your fee structure during the pandemic; that would be too self-serving. But put it on your radar when things stabilize.

Alan Boomer says that an ambitious planning firm should hire a chief operating officer sooner rather than later, and give that person responsibility for leadership and management, practice efficiency, growth and administration. All the things you don’t want to be responsible for.

In this issue, Dave Grant talks about the great opportunity (remember, this magazine was written a month ago, and only now comes out due to printing schedules) to harvest tax losses, while at the same time explaining to clients that this is not market timing. And Kimberly Foss says that home equity lines of credit are, in this low-rate environment, an economical way to tide client finances over if they’re laid off or short of cash to pay for necessities.

Finally, Ed Slott notes that clients can make IRA and Roth IRA contributions up to July 15 this year but remember to stay on top of these late contributions, because a custodian might automatically assume they are for 2020 rather than 2019.

Urgent memo to the editors: hang onto your advisor/professional columnists. They’re carrying the magazine.
Please stay safe; your clients need you right now.

Best,

Bob Veres
Inside Information
http://www.bobveres.com

Articles that received a “high” relevance rating:

“AUM is Plummeting. Time to Rethink Fee Models?”
by Carolyn McClanahan
Financial Planning, May 2020
Relevance: high
Advisory firms are working harder than ever, between more phone calls, writing more frequent client messages, rebalancing and dealing with staffing issues. And their AUM revenues have declined, adding more stress to the situation.

Does that make any sense? The author charges quarterly fees, and it was a lifesaver in the 2008-9 downturn. Will more advisors follow suit this time around? She thought there would be a change after 2009, only to be disappointed. Part of the problem is: what services do you provide after the initial financial plan? McClanahan revisits each part of the initial plan each year: cash flow analysis, tax planning, projections, college and investment planning. The reviews are by email and phone call, providing a constant drip of reviews and identifying potential problems.

Her recommendations: plan out what advice you will deliver to your clients in the future. Figure out what it costs to provide that work, and charge accordingly. But don’t change your fee structure until we’re out of the pandemic. And if you are not providing real financial planning, you have more work to do. (p. 9)
“Your Most Important Hire”
by Allan Boomer
Financial Planning, May 2020
Relevance: high
For growing firms, Boomer recommends hiring a chief operating officer, who will initially be responsible for all of the non-investment functions of your firm. This person will tend the valuable human capital at your firm. Boomer promoted a team member to the role of COO, with four areas of responsibility: leadership and management, efficiency, growth and administration. This involves recruiting, retention, training and development of the staff. She is also promoting the company standards, like how quickly the advisors respond to client emails, the fonts used in presentations, and the look and feel of the website.

A software tool provided by monday.com tracks where new clients are in the account opening process and manages the workloads of the support staff. There are organized publicity activities, client events, speaking engagements and volunteer assignments. The COO deals, directly or indirectly, with regulators, tax authorities and the Department of Labor. (p. 12)

“A Silver Tax Lining?”
by Dave Grant
Financial Planning, May 2020
Relevance: high
Boomer was able to harvest tax losses in a client’s portfolio and save $17,000 in taxes. He says that this is a great time to harvest taxable losses, but you have to explain that this is not market timing. The portfolio will look different for a short period of time, but will get back on track by purchasing similar investments. For most clients, he reinvested in the most simple possible way: putting the money into a target date fund for 30 days. In addition, he says that almost all the fixed-income positions are in tax-deferred accounts, and equities are in taxable accounts, which makes tax loss harvesting easy. (p. 14)
“Harnessing the HELOC”
by Kimberly Foss
Financial Planning, May 2020
Relevance: high
The column notes that HELOCs are tied to the prime rate and float in response to market conditions—which today makes them an economical way to borrow for clients who have to pay the mortgage while being laid off. (p. 16)

“Clients Get Much-Needed Retirement Relief”
by Ed Slott
Financial Planning, May 2020
Relevance: high
Clients who are financially stressed might appreciate that the date for making 2019 IRA and Roth IRA contributions is extended to July 15 of this year. Watch out, though: custodians may automatically code 2019 contributions as 2020 contributions if made after April 15. Make sure the checks state that they are for 2019, and follow up with the custodians to confirm that the contributions are posted correctly.

Congress has eliminated the required minimum distributions for 2020, and the waiver applies to 2019 RMDs that would normally be due by April 1. IRA beneficiaries who inherited in 2015 or later would normally be subject to the five-year payout rule. Any balance remaining in the inherited IRA would normally have to be withdrawn in 2020. But now those beneficiaries have one more year, until December 31, 2021, to empty the account. For beneficiaries who inherited in 2015, the five-year rule has become a six-year rule.

The new act waives the 10% early distribution penalty, for individuals under age 59 1/2, on up to $100,000 of 2020 distributions from IRAs and company plans for “affected individuals.” Taxes would be due on the distributions, but they could be spread evenly over three years, and the funds could be repaid over the three-year period. (p. 30)
“My First Black Swan”
by Joey Loss
Financial Planning, May 2020
Relevance: high
This is the author’s first major downturn experience, and he’s learning from it. His older clients have been through downturns before and know to remain calm, but his younger ones are very worried. They want reassuring conversations every few days. He knows the lessons of past downturns, but he doesn’t always feel as confident as he imagined he would. Is it realistic to expect to navigate a pandemic and market downturn with poise and confidence?  (p. 40)

The rest of the articles:

“Coronavirus Tests Advisors’ Limits Like the Financial Crisis Never Did”
by Andrew Welch
Financial Planning, May 2020
Relevance: low
And the winner for the longest article headline ever is… actually an introduction to a special section related to how to cope with the pandemic and the issues it presents. The article tells us (unnecessarily) that many advisory firms have their staff working from home and dealing with a decline in top-line revenue. The wiser advisors have stockpiled cash that will see them through without layoffs. Conferences have been canceled, and advisors are videoconferencing with clients in lieu of face to face meetings. Is there anything here you didn’t know before?  (p. 18)

“Portfolio Construction After COVID-19”
by Charles Paikert
Financial Planning, May 2020
Relevance: moderate
Before the market downturn in March, spreads between Treasury bills and high-yield bonds were less than 5%. By the end of March, that spread had
doubled, and the article suggests that advisors going forward are going to demand to be paid more for risk. Advisors looking for yield in the low rate environment might prefer master limited partnerships, REITs and preferred stock. The article suggests, dangerously, that advisors can gain additional yield for their clients “if they’re willing to give up liquidity.”

The pandemic highlights the importance of having a well-funded emergency fund—and at the very end we are told what should be the lesson of the article, which is that eventually clients will see that the basic principles of portfolio design will have worked, in retrospect, pretty well. (p. 23)

“Post-Quarantine Client Interactions”
by Ingrid Case
Financial Planning, May 2020
Relevance: low
We are told (unnecessarily) that advisors are depending on virtual technology to connect with clients during the pandemic. Some are doing webinars on the markets and their process for handling big market moves. In-person gatherings at restaurants and clubs are no longer taking place. Clients are comfortable meeting on screen, and everybody is getting more familiar with Zoom and with the dynamics of having staff working from home. Is there anything here that you didn’t know already? (p. 24)

“Who’s Satisfying Clients?”
by Tobias Salinger
Financial Planning, May 2020
Relevance: moderate
TD Ameritrade gave its employees $1,000 to help cover the costs tied to working remotely. Northwestern Mutual has made charitable donations. Addepar is offering credit worth up to 50% of the cost of a new license to use its services. Twenty Over Ten has offered its content library free for 30 days, and cut the monthly fee for its lead service by 50% for first year users. BD Kestra Financial has created coronavirus content in its Digital workstation. The Financial Planning Association says that its members have offered discounts on first-year planning fees. NASAA, the state
regulators association, has started a task force to identify potential coronavirus investment fraud cases. Lincoln Financial Group is connecting companies that have laid off workers with those who are hiring. eMoney Advisor is giving away three months of access to its financial planning software. Cambridge Investment Research will allow its paid summer interns to work remotely. Securian Financial waived all its hardship and other distribution fees when people want to withdraw from their 401(k) accounts. (p. 26)

“SEC: Watch Your Conflicts”
by Kenneth Corbin
Financial Planning, May 2020
Relevance: low
SEC examiners have halted in-person exams, but are still monitoring firms remotely, and prefer to see firms identifying conflicts due to the pandemic. The article is frustratingly non-specific about what, exactly, that means, though it says that anybody who discloses that there “may” be a conflict probably should either address the conflict directly or use the word “will” and provide more specific disclosures of how the conflict will be managed. But… what kind of conflicts are arising due to the coronavirus? We are never told. (p. 29)

“A History Lesson Amid Market Turbulence”
by Craig Israelsen
Financial Planning, May 2020
Relevance: low
I’m not sure how you would apply this information; the article shows that stocks have, over the past 22 years, have been up the most in the month of April. Small cap stocks, however, have the best returns in December and April finishes second. Commodities tend perform better in February and April. The article notes that February and March produced brutal returns, and of course the magazine was published before the April returns were in the books. (p. 33)
“The Drawbacks of Fractional Real Estate”
by Ingrid Case

Financial Planning, May 2020


Relevance: moderate

You can make real estate investments through HomeUnion and Roofstock; it is described as like buying real estate on Amazon. Also: Compound, which sells shares in real estate in New York, Miami, Nashville and Austin, TX. The article also mentions RealtyMogul, Fundrise, Sharestates and YieldStreet.

Advisors who have looked at these “investments” say they are pure speculation. You make a bet on a city, neighborhood and property, and investors pay a premium for the access and convenience, which diminishes the return. And then there’s the lack of liquidity; it can take weeks or months to sell your fractional holdings. Why not invest in a publicly-traded REIT instead? (p. 36)