EXCLUSIVE POLL ON GENDER ISSUES

Investment Advisor

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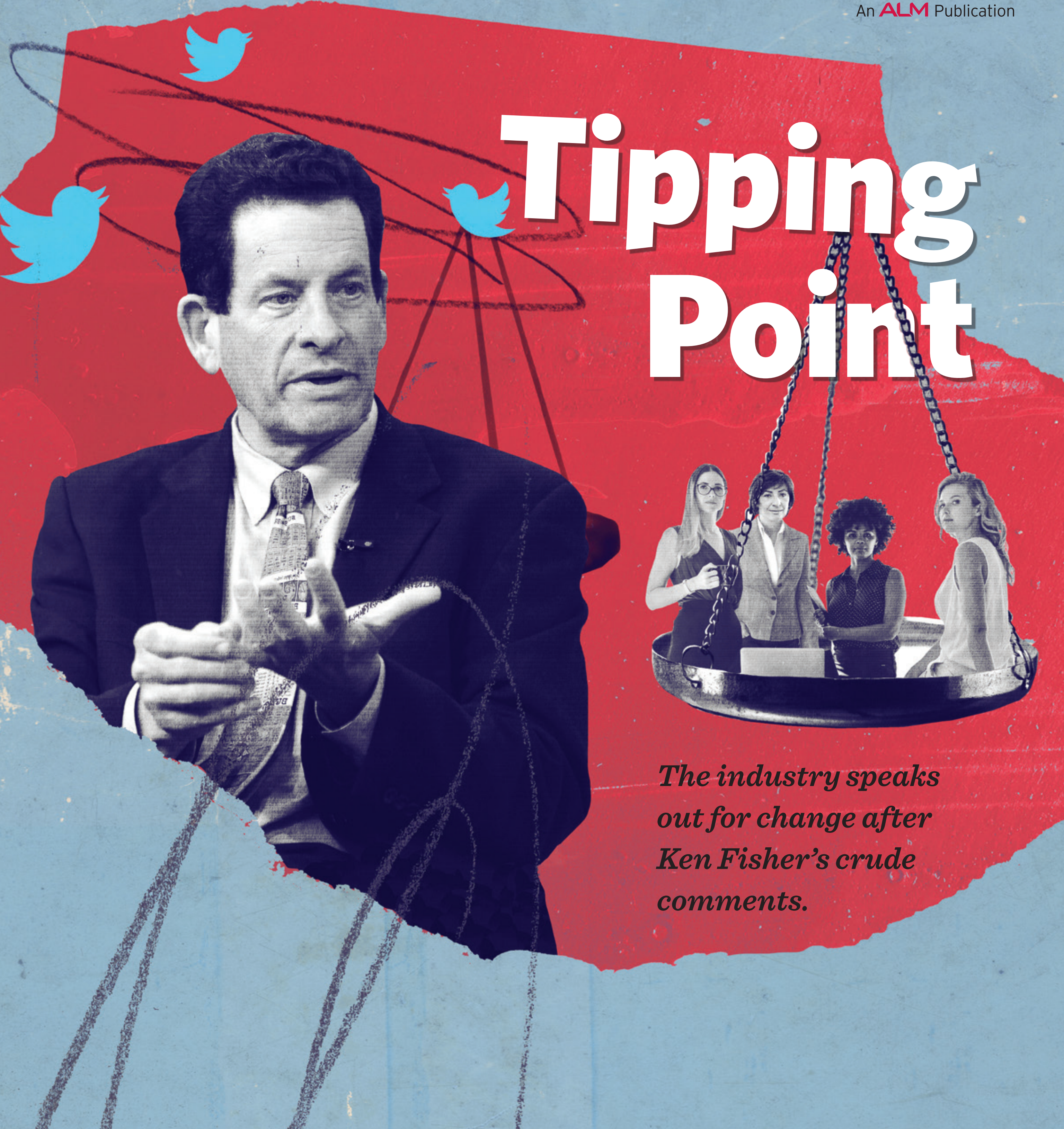

Tipping Point

The industry speaks out for change after Ken Fisher's crude comments.

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Special Report

Tipping Point

By Janet Levaux

Members of the industry are speaking out for change in response to Ken Fisher's lewd remarks and to stop bad behavior; plus, our exclusive poll reveals what female and male financial advisors really think of his comments and more.

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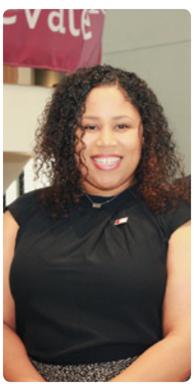
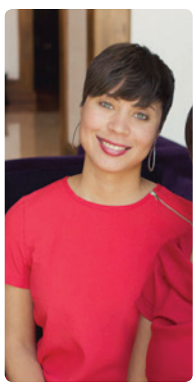
A Call to 'Do Better'

By Janet Levaux

Our poll and a recent blog series show the need for new attitudes and approaches toward harassment, as Ken Fisher's crude comments have sparked renewed interest in it.



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Next-Gen

A Family Affair: How One Wirehouse Is Welcoming Next-Gen Black Advisors

By Janet Levaux

Young African Americans explain why they are joining their parents in the business.

Departments

DECEMBER 2019
VOL. XXXIX NO. 12

"Consider how your organization might make a difference in educating young people in local schools and career development programs."
—Mark Tibergien

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Social Media Adds New Dimension for Advisors

While more advisors are using social media, broker-dealer reps and wirehouse brokers use it more frequently and see it as a more valuable business-building tool than do registered investment advisors, according to a just-released study by American Century Investments.

Roughly half of the 301 advisors surveyed use social media for business purposes on a daily or weekly basis, compared with only 21% of RIAs, the study found.

Most RIAs do not use social media for business purposes at all, compared with 66% of other advisors who are using social media for business purposes.

Some 62% of financial advisors at wirehouses and BDs have scheduled a meeting in the past year as a result of social media versus 35% of RIAs, the study found.

Nearly one in five BD and wirehouse advisors have scheduled more than 10 meetings in the past year from social media, compared with only one in 20 RIAs.

"We found that 57% of advisors now use social media in their practice, versus only 25% in 2010," said Diane Gallagher, vice president of client marketing for American Century Investments, in releasing the study results. "Furthermore, 63% of advisors now have a social media program at their company, up from 53% in 2011. This says to us the industry has come a long way."

The study also found that older, more experienced advisors use social media more than their younger counterparts.

According to the study, 85% of advisors with five to 20 years of experience use social media for business purposes, while only 44% of less-tenured advisors do.

Also the study said, "almost four in five medium-tenured advisors have increased their assets under management in the past year by using social media, while only two of five other advisors have."

The research also found that advisors who received advanced social media training saw a greater business value than advisors with basic training.

PHOTO: NOPPARAT KHOKTHONG/SHUTTERSTOCK

"Advisors with more in-depth training used social media more frequently; over half with advanced training used it daily. Also, advisors with advanced training were able to get in front of key decision-makers using social media that they otherwise could not at a much higher rate than with basic training alone," the study found.

New Tech for New Rules

Hearsay Systems announced that it has launched a new consulting practice, Hearsay Compliance Advisory Services, to help financial services firms comply with industry regulations like the Securities and Exchange Commission's Regulation Best Interest and the Financial Industry Regulatory Authority's recently enacted Advertising Rule 2210.

"As new technologies permeate the financial services industry, compliance issues become more complex. With a constant influx of new regulations and guidelines, organizations are often lost on how to expand existing programs to meet new compliance requests and when to adopt new technologies and practices," said Donna Prlich, Hearsay's chief business officer.

The new compliance services plans to help customers navigate this landscape by providing both technical and subject matter expertise to optimize Hearsay's data-driven, customer-centric digital solutions to customers' risk profiles.

The services, which are customizable, include:

- Discovery and Risk Assessment: A well-defined lexicon enables compliance program administrators to efficiently and effectively oversee advisor content.
- Compliance and Supervision Training: To help Hearsay compliance administrators increase their value, the new group has created its own certification program in compliance administration. This offering shows exactly how compliance for the Hearsay platform can be used to support digital marketing programs through the full client-advisor/agent life cycle.
- Compliance Analytics and Reporting: To help advisors engage with their clients seamlessly, Hearsay partners with teams to analyze their compliance policies and supervision processes to minimize the firm's risk while ensuring an efficient client engagement experience for advisors.
- Compliance Resource and Technology Optimization: As organizations evolve and policies and procedures shift, Hearsay configurations also may need to change. As such, Hearsay partners with teams to reconfigure their supervision dashboard, ensuring that the review process meets the needs of the program. The tech firm also can update fields on advisors' social media profiles to ensure they are in compliance.

—Melanie Waddell

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american business media

EDITOR'S NOTE

By Janet Levaux

Special Times, Special Report

Since we helped break the news of Ken Fisher's comments and advisors' reaction to them on Oct. 9, things have been busy. Of course, there've been facts to check.

The real task, though, has been to keep up with the opinions of many advisors and others in financial services. So many of you have been voicing your views on these developments and what they mean for the industry's treatment of women. It's often hard to keep up.

Collecting and reflecting on these opinions has been eye-opening, demanding, educational and satisfying. I've been privileged to have made dozens of new professional relationships through this process — many on social media — and to interact with individuals and groups in the industry eager to join and add to the discussion.

I've been privileged to have made dozens of new professional relationships through this process — many on social media — and to interact with individuals and groups in the industry eager to join and add to the discussion.

What's been most surprising, though, is the great response to our exclusive *Investment Advisor*/ThinkAdvisor.com poll on Fisher's comments and what they mean for the business of financial advice. No spoiler alerts here, sorry. The full results can be found starting on page 30. (Hint: There is a much greater consensus on some topics than I ever expected.)

How many of you participated? More than 1,350. And we are grateful. Several hundred of you shared detailed and spirited comments on what the industry needs to do to become a safer, better place for women, which we also thank you for.

Of the many remarks from poll respondents, just a handful dismiss the need to discuss Fisher's use of lewd language and the media's attention to it. The remaining views expressed in the survey aim to help move the industry forward. The poll response has revealed how engaged many of you are with the daily news of the business and how much you care about what's happening in it.

There's no clear path or full story written yet in terms of the industry's gender issues, some of you told us. And that means we have lots to cover in 2020.

Beyond gender issues, this month's magazine highlights possible shifts in the SEC's advertising rule. Be sure to read Washington Bureau Chief Melanie Waddell's Playing Field column, "SEC Ad Rule Revamp Is a Game Changer" for the latest details.

In addition, we share profiles of four Next-Gen black advisors who have joined their parents in financial services. The parents explain some of the ups and downs they've seen in the business, while the children focus on what they're learning by following in their footsteps.

Finally, as the holidays approach, I want to thank my colleagues for working extra hard on our Fisher coverage and survey. And, again, many thanks to everyone who's helped us with our reporting and survey on the Fisher news and its ramifications. You've certainly helped me to better understand how my own writing and sourcing can be improved — by adding more voices to it and considering news developments from more varied perspectives.

GROUP EDITOR-IN-CHIEF

Beginnings

WASHINGTON WATCH

By Melanie Waddell

Top 2020 Compliance List? Reg BI, Secure Act, New Ad Rule

As the year-end approaches, industry officials, lobbyists and lawmakers discuss chances for the Secure Act's passage and how likely it is that Reg BI's compliance date will stick.

PHOTOS: CAPITOL BUILDING: KEITH LAMOND/SHUTTERSTOCK; 2020: ALONES/SHUTTERSTOCK

As the new year approaches, advisors are bracing for a passel of new rules and laws coming out of Washington — namely the Securities and Exchange Commission's Regulation Best Interest, an anticipated modern version of the SEC's advertising rule as well as potentially new sweeping retirement-related tax policies emanating from the Setting Every Community Up for Retirement Enhancement (Secure) Act.

The Secure Act, which passed the House earlier this year, was volleyed about the Senate floor in November as the deadline to fund the government loomed.

Senate Majority Leader Mitch McConnell, R-Ky., failed twice in mid-November to get senators to pass the Secure Act under a unanimous consent (UC) vote.

Sen. Rob Portman, D-Ohio, said on the Senate floor in early November that "a live UC was tried. It was an attempt to get a vote on the Secure Act," adding that he supported the five amendments offered by Republicans.

For the past five and a half months, Portman continued, "some of us have been trying to get this legislation done, and there have been concerns on both sides of the aisle. But we're at a point now where we know, having raised this live UC, that we continue to have this stalemate. And after five and a half months, it's time for us to move forward on these reforms."

Industry officials and lobbyists have anticipated that a continuing resolution — as opposed to an omnibus spending bill — would be passed to fund the government until Dec. 20, and that Secure would not be attached to a CR.

There's "bipartisan, bicameral support for attaching Secure" to a must-pass bill, specifically a spending bill, but Congress "is more likely to go with a continuing resolution" to fund the government through the end of the year, said Judi Carsrud, NAIFA's assistant vice president for government relations.

The CR "is far less likely to have any attachments, because Congress likes 'clean' CRs to avoid the politics of which bills it could or should attach," Carsrud says.

There's likely "a little less than 50/50" chance that Secure Act passes this year, Brad Campbell, former head of the Labor Department's Employee Benefits Security Administration, said on a recent call. Passage is "certainly a possibility, and it's something there's a lot of people working to try to get the Senate to make some forward progress on."

If the Secure Act is going to get passed, "it probably needs to happen this year," said Campbell, who's now a partner at

Drinker Biddle in Washington, given that "next year becomes more and more about the [presidential] election and that kind of fighting."

But whatever happens, the bill's "concepts … have gotten bipartisan approval, so they're going to hang around," Campbell opined.

The bill's package of retirement-related tax provisions increases the auto-escalations safe harbor to 15%, changes the required minimum distribution age to 72, gets rid of the age limit for contributions to IRAs, and puts in place a safe harbor for selecting an annuity provider for workplace retirement plans.

A couple of Secure Act provisions "have raised some eyebrows," according to Campbell, including one that says that employees who work 500 or more hours for a company in three consecutive years are eligible to join its retirement plan. "That's raised some questions about compliance and other issues."

If there's another tax bill next year, and "if there is another opportunity after the presidential election and the next congressional election and the next Congress, we'll see these ideas [in Secure] stay and some of them will make it through; the question is what's the vehicle and what's the timing?" he added.

WILL REG BI COMPLIANCE DATE STICK?

Meanwhile, attorneys prognosticated in late October whether Regulation Best Interest's June 30, 2020, compliance date would actually kick in, given the lawsuits lobbed against the agency's controversial rule this year.

The recent lawsuits filed against the Reg BI by seven states are "more political posturings" than "credible, legal maneuvers" and are unlikely to succeed, Campbell said on Drinker Biddle's Inside the Beltway webcast.

The recent lawsuits by the state attorneys general show they believe Reg BI "was not the right policy solution," Campbell said. The lawsuit "fits in" with the actions by some states to pursue their own fiduciary regulations.

The lawsuits are "more indicative of a political split and a policy split between the federal government and the states," said Campbell, the former head of Labor's Employee Benefits Security Administration.

Jim Lundy, partner in Drinker Biddle's Chicago office, added that he believes the SEC "will do everything to be successful" in fighting the lawsuits. "I do think the [legal] challenges [against Reg BI] will be unsuccessful."

He reminded attendees that the legal challenges are only against Reg BI and not the other parts of the SEC's advice-standards package, like Form CRS.

The attorneys did not opine on the lawsuit brought against Reg BI by XY Planning Network, led by advisor and blogger Michael Kitces, as they hadn't reviewed XY's case.

However, Kitces told *IA* in mid-November that he believes XY Planning has a strong case.

"We're still in the stage of determining in what jurisdiction the case will be brought (District Court or Appeals Court)," Kitces said.

The judge in the Southern District of New York initially responded "that he thought our case did not belong in his (District) court and that it should go to the Appeals Court. We're waiting for the court to publish a briefing schedule so we have the opportunity to respond to the judge, and then decide if we're actually going to object and make a case to have this heard in District court or simply take it to Appeals Court and argue it there," Kitces said.

The lawsuit filed against Reg BI by eight attorneys general was dismissed on Oct. 11 by the Southern District of New York, as the court wants the matter to be taken up by the U.S. Court of Appeals for the 2nd Circuit.

FINRA MOVING AHEAD ON REG BI COMPLIANCE

Sandra Grannum, a partner in Drinker Biddle's Litigation Group, said that the Financial Industry Regulatory Authority, which will be the enforcer of Reg BI, "has made a point telling its members: Get ready. Our expectation is that we will be enforcing Reg BI come July 2020."

Indeed, FINRA's CEO, Robert Cook, said in mid-November that the broker-dealer regulator was gearing up to conduct Reg BI compliance checks on BDs in the form of "preparedness" exams.

At FINRA's Senior Investor Protection Conference in Washington on Nov. 12, Cook said that "as we get closer to the [Reg BI] deadline, we will be building into the scope of some of the reviews that we're doing … a conversation about how's a firm getting ready to comply [with Reg BI]."

He continued: "We just want to make sure we understand what some of the challenges that firms are facing at this stage and where they might be needing more guidance."

After assessing BDs' Reg BI compliance status, FINRA will be prepping for Reg BI exams by "working closely" with the Securities and Exchange Commission, Cook said.

"We want to make sure that the exams are embodying the same general approach, and to that extent, talking about making sure examiners are comparably trained," Cook said. "So there's a lot of coordination on the exam front with the SEC."

Cook added that FINRA plans to "move forward in the near future" in filing a rule proposal with the SEC on FINRA's suitability rule and "how it interacts" with Reg BI. **IA**

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By Bernice Napach

ETFs, Mutual Funds Moving in Different Directions

The number of mutual funds is on track for its biggest decline in four years, Cerulli reports.

A new report from Cerulli Associates painted a divergent picture of mutual funds and ETFs. While the number of mutual funds is on track to experience its biggest decline in four years, the number of ETFs is poised for just the opposite.

The Cerulli report shows that a net 107 mutual funds disappeared this year through the second quarter as the number of closed or merged funds exceeded the number of new ones brought to market. That's far more than the net number of mutual funds that vanished in all of 2016, 2017 and 2018, which ranged from 74 to 97.

In contrast, the number of ETFs rose to its highest level since at least 2014. By the end of the second quarter, there were 7,732 mutual funds, the lowest number since at least 2014, and 2,122 ETFs.

Actively managed funds accounted for almost all the net closures of mutual funds. More than 100 mutual funds opened during the first two quarters of the year and almost all were passive index funds.

Cerulli attributes the "rationalization" of mutual funds to the commoditization of the product and to distributors trimming their product platforms. Its survey of asset manager product executives revealed that 33% rate product rationalization a high priority and 58% consider it a moderate priority.

Among the top factors that asset managers consider before closing a fund: assets under management — they want to see "a clear path to getting to the $100 million to $200 million range" — performance and demand from key distribution partners, according to Cerulli.

FUND ASSET FLOWS: ACTIVE VS. PASSIVE

Asset flows into actively managed mutual funds were also a net negative. Year-to-date through September they were negative $65 billion, while flows into passive mutual funds rose $148 billion.

ETF flows were a different story. Actively managed ETFs saw inflows of $16.8 billion year to date through the third quarter, while passive ETFs had inflows more than 10 times that large: $184 billion.

"The market share shift toward passive is indicative of investors' desire to use passive investment to help keep costs low, while still using active where they feel it can provide alpha in less efficient areas of the market," according to the Cerulli report, referring to both mutual fund and ETF net inflows.

Indeed, the Fidelity 500 Index fund, which has a net expense ratio of 1.5 basis points, led all other mutual funds in net inflows year to date through the third quarter, up $22 billion, topping even flows into Vanguard's 500 Index Fund, which charges 4 basis points.

The No. 2 fund for inflows was the Fidelity Series Total Market Index Fund, which also charges 1.5 basis points, followed by the Vanguard Total Stock Market Index Funds, whose Admiral shares, requiring a $3,000 minimum, cost four basis points.

In addition to a preference for passive assets, mutual funds and ETFs share another key characteristic: concentration of assets.

The top 10 mutual managers accounted for just over 64% of market share, while the top 10 ETF sponsors had just over 96% of market share.

Although ETFs have been growing steadily in number on a net basis, their assets are far fewer — $4 trillion vs. $15.5 trillion in mutual funds.

Several recent developments could help narrow that gap: the elimination of commissions for ETF trades instituted by Schwab, Fidelity, TD Ameritrade, E-Trade and Ally Financial; the SEC's new rule that eliminated the need for fund sponsors to seek exemptive relief before bringing new ETFs to market; and the SEC's approval of a strategy, called ActiveShares, that allows asset managers to build and market non-transparent ETFs (those ETFs are not privy to the exemptive relief change).

An earlier Cerulli survey of "product heads" from 35 asset managers found that 46% indicated they would build nontransparent ETF capabilities within a year if the SEC approved the ActiveShares proposal from Precidian Investments. **IA**

ThinkAdvisor.com Senior Writer Bernice Napach can be reached at bnapach@alm.com.

ILLUSTRATION: LIGHTSPRING/SHUTTERSTOCK

By Alex Laipple and Melissa Mittelman

SRI: How Advisors Can Bridge Idea and Practice

Just as index investing stumped advisors in the mid-1970s, sustainable investing may take time to catch on.

Socially responsible investing is hard to overlook these days. There is roughly $12 trillion — or one out of every $4 of professionally managed assets in the U.S.— invested in line with sustainable, responsible and impact strategies, and the practice continues to gain market share globally.

Companies increasingly tout their environmental and social practices on earnings calls, appealing to growing interest in such information. Environmental, social and governance factors continue to move up the list of investor priorities.

This is all for good reason. Aside from being morally compelling, sustainable investing is increasingly seen as "full-information investing." The burgeoning availability and sophistication of ESG data equips investors with new ways to assess corporate behavior and subsequently, risk. For investment advisors, it also presents a tremendous opportunity to differentiate and modernize their firms.

Still, many advisors meet a roadblock when it comes to bridging the gap between idea and implementation. This is perhaps not surprising — just as index investing stumped advisors in the mid-1970s before it emerged as a dominant investment strategy, sustainable investing may take time to achieve mass adoption. We think sustainable investing is largely an untapped opportunity, and for those advisors who want to translate interest into adoption, it may be a matter of making a few simple changes.

- **Personalize the introduction:** While there's a good chance clients are familiar with the concept behind sustainable investing, the way an advisor raises the discussion has direct consequences on a client's receptivity. Is your client especially risk averse? Perhaps you introduce sustainable investing as a tool for risk mitigation, pointing to the material consequences of poor governance in instances such as Uber or Boeing. Is your client especially interested in causes such as gender equity or climate change? Investing with a gender or climate lens is an opportunity to align one's financial story with his or her personal interests. Sustainable investing is a big topic; the more personal you make it, the more sense it can make to clients.

- **Bring your client into the discovery process:** ESG products come in many flavors and, as an advisor, it can be difficult to know where to start. Instead of trying to master the complexities of a specific product, start with what you know: your client. Are they detail-oriented, eager to pore over impact reports? Are they brand-sensitive, highly responsive to the way their investments express their identity? Are they early adopters or wait-and-see investors?

Having a clear direction of *how* your client wants to approach sustainable investment strategies is an essential step toward implementation. These conversations also engage the client in the process and provide ample opportunity to deepen the client relationship.

- **Address key concerns:** Advisors commonly encounter the same three questions when raising the idea of sustainable investing with clients. The first is a performance question: "Does sustainable investing mean I have to compromise returns?" The second is a product question: "How can I align my portfolio with my values?" And the third is a reporting question: "Can you show me the impact?" Education is an essential part of sustainable-investing adoption, and there are plenty of resources advisors can turn to as they familiarize themselves with the possibilities.

Known as the "ESG paradox," the spread between client interest and advisor adoption is one of the main barriers to growing sustainable investment assets. As investor interest in sustainable investing continues to mount, advisors face both a growing responsibility and opportunity to educate themselves and their clients about how and why the strategy can work for them. **IA**

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ILLUSTRATION: KMLMTZ66/SHUTTERSTOCK

By Timothy D. Welsh

Big Tech Flexes New Products at T3

Advisors will find new goodies on their platforms as IBDs and national RIAs look to expand their offerings.

The stakes were high for all parties at the recent Technology Tools for Today (T3) Enterprise Conference, held beachside in Ft. Lauderdale, Florida. The advisor industry's technology ecosystem all gathered to showcase their wares in front of the big buyers from the larger independent broker-dealers, banks and national RIAs.

"T3 Enterprise is important in so many ways, particularly as these large financial services executives will literally be deciding for the hundreds and even thousands of advisors they support what technology they will be using to work with clients and [to] run their businesses," said conference host and T3 producer, Joel Bruckenstein.

PHOTO: TIERNEYMJ/SHUTTERSTOCK

This theme played out in real time in the conference finale, a panel moderated by Suzanne Siracuse, a well-known industry consultant. Siracuse grilled four CTO's from Dynasty Financial Partners, Cetera Financial Group, Ladenburg Thalmann, and Cambridge Investment Research on what they were focused on in their businesses to support the thousands of advisor clients.

For David Ballard, SVP for Ladenburg Thalmann, his mandate has been to enhance the client experience, particularly in terms of the technology tools he provides, such as a unified advisor and client portal. "We're working with INVENT.us to bring a Cloud-native, unified technology environment to upgrade and modernize our technology stack," Ballard said in his opening remarks. "We are streamlining the technology integration process by outsourcing it to INVENT.us, so for any vendor they need to go through that Cloud-native approach, and it has created tremendous efficiencies and cost savings."

Similarly, Cambridge Investment Research CTO and SVP Nick Graham is on a mission to deploy upgrades across systems, to ensure consistency of data and "remove paper from the process" wherever possible, he noted.

Cetera's CIO Mike Ragunas focused on ease of doing business, and additionally looking at newer, emerging technologies to help advisors better work with their clients. Interestingly, Ragunas comes from a consumer background and is newer to the wealth management space. However, he said that is an advantage as he's able to into that background to provide tools to help advisors better understand how clients think, such as with the new facial recognition technology Cetera has deployed, along with more automated marketing tools.

From the platform provider perspective, Dynasty's CTO Eric Castillo is responding to advisor feedback that they often learn the best from each other. As a result, Castillo is providing a chat feature so that advisors can communicate across the firm's platforms, as well Dynasty is adding more tools for business intelligence.

What will be the biggest changes in 2020, Siracuse asked the panel. Interestingly, the answers had nothing to do with technology itself, but rather were related to big industry movements from policy and pricing changes that will alter the way advisors will do business and deliver advice.

"By far, the biggest game changer will be the full effects of the elimination of commissions for trades," said Castillo. "This will provide a big boost to the direct indexing space and have a tremendous negative impact on the need for ETFs and mutual funds as many of the diversification benefits those fund structures provide now can be implemented directly by owning the underlying securities; and because there are no more costs for trading, then that approach to mimic an index is now frictionless and cost-less."

The technology implications here, according to many experts, are that with zero trading costs, software can take over that space. For example, Orion's powerful Astro optimization and rebalancing technology can replace the operating costs of ETFs and mutual funds.

Both Graham and Ballard pointed to regulatory changes as it relates to privacy laws and Reg BI. "These state-driven privacy laws are now in 3 states — California, Nevada and Maine — with 11 other states considering them," said Graham. "Firms will not be able to paper their way out of this in terms of disclosures; there are real technology issues and costs to manage in how client data gets shared."

Cetera's Ragunas pointed to the rise of fee-for-service financial planning through subscription and retainer fees, as well as in the gamification of financial planning. This is why he's investing in the ability to provide alternative pricing for financial planning services two ways: through a deal with Michael Kitces and Alan Moore's AdvicePay fee-for-service billing and payment technology, along with Envestnet | Money Guide's Blocks componentization of the planning process into bite-size pieces.

Concluding this panel, Siracuse asked for the hundreds of technology executives in attendance hopeful to catch the attention of these technology buyers, "What tech areas are you looking to invest in this year?"

The answer was consistent across the panel: whatever fills in the gaps to help advisors do their jobs better, as well as find niche solutions that can be leveraged to create new revenue streams.

NEW IDEAS

This was music to the ears of many of the specialized planning tools at T3, such as Whealthcare Planning, the health + wealth technology platform embraced and co-founded by advisor, Carolyn McClanahan. McClanahan is a medical doctor as well as a CFP, uniquely positioning her and her co-founder, Chris Heye, as true experts and practitioners for this growing area of financial planning.

The technology implications here, according to many experts, are that with zero trading costs, software can take over that space.

"Our goal with Whealthcare Planning is to normalize the conversations for advisors in the areas of aging and death," said McClanahan. "Particularly as federal and state regulators are now closely scrutinizing advisors' policies and procedures to protect older clients from financial abuse and fraud."

As a result, Whealthcare Planning is top of interest for enterprise financial services firms, as they look to better arm and train their advisors around the specific issues where health and wealth intersect, while also insulating themselves from potential liability in cases of elder financial fraud.

Of course, the big enterprise technology firms also were in attendance and made a big impression. Orion introduced its new advisor portal with integrations from their recent acquisition of Advizr. Morningstar opened up the conference showcasing its new goals-based investing platform and some new research that showed that goals-based investing adds one to two percentage points in "Advisor Gamma" value to clients.

Vestmark demoed its new streamlined and consolidated managed account platform Vestmark One, while Laserfiche introduced the new Laserfiche Vault, a FINRA-compliant designated third party solution.

Additionally, there were several newcomers to the space such as Andes Wealth, a new risk profiling and management platform; Intergen Data, which leverages AI to help advisors make better decisions, and Fiduciary Shield, a retirement plan technology platform that helps plan sponsors reduce the expense of plan sponsorship and discharge their legal obligations as a plan fiduciary.

Based on the enthusiasm on tap at T3 Enterprise this year, advisors working with large financial institutions will sure find the new technology goodies on their desktops soon.

To learn more about what went on at the 2019 T3 Enterprise Conference, check out the many tweets on the #T32019 hashtag on Twitter. **IA**

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By Ginger Szala

6 Realities for RIA Buyers and Sellers in Today's Market

What should buyers and sellers expect? Here are findings from an Advisor Growth Strategies' study that looked at 55 M&A deals.

M&A is all the rage these days — several specialists pointing out this year has had more than 100 deals in the financial advisory field to date. But what are some of the trends inside this development? A new study by Advisor Growth Strategies and sponsored by BlackRock found some interesting new demands on buyers and new realities for sellers.

The six new demands for each group are related but different:

1. With 5.4% of advisory firms controlling 63.2% of AUM at the end of 2017, the study found RIA buyers need to decide if they want to compete through scale and inorganic growth or stick to the boutique approach. On the flip-side are the sellers, in which not all multiples rose the same. The top 0.5-1% of firms by AUM in the industry are commanding premium multiples, but often they had to accept specific structured deals to achieve the transaction.

2. The largest buyers set the pace and deal sophistication heightened — in fact this group completed 42% of the transactions from 2016-18. For sellers, the big brands are offering "turnkey offerings." This also means these big brand buyers come with robust capabilities, target markets and deal model discipline. They also bring in "rational" expectations on price and structure, and sellers should expect this type of offer.

3. Cash is now king and buyers can now expect to deploy 60% of cash consideration at closing. This is a very high barrier to entry for buyers. But sellers, who may get that 60% cash infusion at closing, must also consider that liquidity impact on overall valuation. As the study notes, "Are sellers willing to trade cash for the highest possible valuation?"

4. Buyers must be able to compete in this cash-rich landscape, thus strike a balance between two things to close the deal: "price and terms based on the transaction's purpose and a focus on broker transaction benefits." For the seller, the median adjusted EBITDA multiple experience, states the study, was less than a 10% variation from 2015-2018. Therefore sellers should think of a long-term deal unless they want to enter "an auction process" and have to accept aggressive terms and structure.

5. More than 40% of the average price, states the study, consisted of the winning firm's equity. That means, buyers need to illustrate a "path to liquidity, a repeatable growth engine scale, and platform" or they'll lose out. Meanwhile, sellers face tradeoffs with any deal structure. The bigger deals favor equities while the smaller deals focus on cash. This means, sellers must study offers carefully and understand what they want out of the deal.

6. The race to buy means that the seller doesn't have to shoulder all the risk. In fact, 70% of transactions are a balance of cash and equity, and buyers must understand this to succeed. Sellers need to know if they want to be prospective partners, and thus be prepared for a shared risk and understand where everyone stands when the transaction is done. Today, "sellers are saying yes to balanced purchases and integration acumen," the study states.

The future for M&A in the advisor field? Although deal volume continues to increase, the authors don't see multiples increasing much for 90% of the market without changes in terms and structures. Also, expect more private equity firms, advanced platforms, and flexible capital providers to force out traditional acquirers because of "built-in growth engines and tangible ways to drive value through competitive capital sourcing, creative deal structures, and creative exit strategies."

The study collected data on 55 transactions from 2018 to 2019. It included over $30B in sellers AUM, $550M in total valuation, and spanned over 20 unique acquiring firms. **IA**

Ginger Szala is executive managing editor of Investment Advisor. *She can be reached at gszala@alm.com.*

PHOTOS: WILLY BARTON/SHUTTERSTOCK; PHONGPHAN/SHUTTERSTOCK

By Joe Elsasser

Year-End Tax Opportunities to Leverage

It's time to consider Roth conversions and harvest some losses and gains.

As 2019 winds to a close, it's important for advisors to take a closer look at where clients are likely to end the year from a tax perspective. While this time of year can be a busy one for advisors and clients alike, it's important to evaluate now. You won't be able to take advantage of these opportunities after Dec. 31.

1. Harvesting Capital Losses

Hopefully, at least once a year, you are running unrealized gain and loss reports for your clients to determine whether there are positions that can be sold at a loss and replaced with appropriate holdings to capture the loss for tax purposes. Each dollar of capital loss often represents a 15% tax savings as most people fall into a 15% capital gains bracket. For some, it may represent an 18.8%, 20%, 23.8%, or more depending on the interactions with the net investment income tax and other income streams.

2. Harvesting Capital Gains

You're probably running reports from custodians or different insurance companies to make sure the required minimum distributions have been taken. Most likely you also are running realized gain and loss reports, since harvesting capital losses for most clients is going to be an annual consideration.

However, harvesting capital gains can be a good option for some clients who fall in the 0% capital gains bracket, resulting in a free step up in basis. This situation is often present for those who are between early retirement and age 70 1/2. Sometimes it can make sense to harvest capital gains up to around $100,000 if you can keep all the other ordinary income off the table.

3. Minding Pass-Through Gains (Phantom Capital Gains)

Around this time of year, mutual fund companies start to publish estimates of capital gains that have been realized in their funds and will need to be passed through to then-current shareholders. Along with the estimated percentage of capital gains, the companies generally also will post a date of record. If you hold the fund as of that date, you will receive a 1099 representing your pro-rata share of the gains recognized inside the funds.

Advisors should consider whether the phantom capital gain is greater than the gain that would be recognized if the position were sold. If the phantom capital gain is greater, then you have the opportunity to sell and reinvest into a more tax-efficient vehicle. Exchange-traded funds and some tax-efficient mutual funds may be options. If the client's situation warrants, tax-deferred vehicles, such as annuities or life insurance, also could be considered.

4. Roth Conversions

In other circumstances you might be looking for Roth conversions. Sometimes those Roth conversions actually can be free. You can take that Roth conversion up to the beginning of the 10% tax bracket and occasionally you might not have any other ordinary income. So, getting $10,000 or $15,000 out of an IRA with zero tax bill is a real opportunity. In other circumstances you might be able to convert right up to the point where you start to get the Social Security tax torpedo or maybe just to the edge of a Medicare premium threshold.

THE HIDDEN VALUE

Doing all the above will add enormous value to your clients, but presenting these opportunities also can help you grow your financial planning practice. You can do this by effectively communicating the value that this tax-efficient retirement advice adds. Clearly show your clients your value as an advisor by taking advantage of these opportunities to add dollars to their retirement plans. **IA**

Joe Elsasser, CFP, RHU, REBC, founded Covisum, a financial tech company focused on creating a shared vision throughout the financial planning process. He developed his Social Security Timing software in 2010 because, as a practicing advisor, he couldn't find a Social Security tool that would help his clients make the best decision about when to elect their benefits.

PHOTOS: EAMESBOT/SHUTTERSTOCK; GTBOV/SHUTTERSTOCK

Tipping Point

Members of the industry are speaking out for change in response to Ken Fisher's lewd remarks and to stop bad behavior; plus, our exclusive poll reveals what female and male financial advisors *really* think of his comments and more.

By Janet Levaux

A typical fireside chat at an event in October quickly turned into a firestorm after billionaire investment advisor Ken Fisher made crude remarks that have sparked a renewed discussion on the treatment of women in financial services.

In the weeks following the incident, industry leaders and many others have spoken out about such bad behavior, some $3.4 billion of Fisher Investment's $115 billion of assets reportedly have flowed out, and a growing number of organizations are putting codes of conduct in place to prevent such behavior.

The industry seems to have reached a tipping point in gender issues, as news stories tied to the Fisher matter continue to dominate headlines and water-cooler conversations. To best evaluate the prospects for meaningful change in the industry's treatment of women, we spoke with business leaders and other participants and conducted an exclusive advisor poll on Fisher's behavior and broader gender-related topics — the results of which are highlighted here.

ILLUSTRATION BY MICHELLE THOMPSON

First, What Happened

Fisher Investments' founder and chair had made crude remarks before. But this time — on Oct. 8 at the Tiburon CEO Summit — was different.

Early the next day, conference attendee Alex Chalekian reacted to them in a video posted on Twitter, which quickly went viral. He described them as "a true debacle. It was horrible. Things that were said by Ken Fisher were just absolutely horrifying."

Chalekian, head of Lake Avenue Financial and RIA Integrated Partners' practice acquisitions, said Fisher referred to "genitalia, … picking up a … girl, …. Jeffrey Epstein, … and [made] other inappropriate comments at the conference."

He and others at the event were "disgusted by this, and many of the women expressed to me that this is why they don't like coming to these conferences. It makes them very uncomfortable. And this obviously doesn't help the situation."

In the remarks, Fisher described prospecting for new clients like "going up to a girl in a bar … going up to a woman in a bar and saying, 'Hey, I want to talk about what's in your pants,'" according to an audio recording obtained by CNBC.

Rachel Robasciotti, founder of wealth manager Robasciotti & Philipson, was one of less than 20 women among the 220 guests at the Oct. 9 event. "I sat in the audience stunned by what I was hearing," she said in a blog post (and on television).

"When you are on stage, you're there because others want to learn from you … ," Robasciotti explained. "When your description of the world uses women as sexual objects and refers to employees as if they were cattle, it has an impact on real people in and outside of the room."

> *"When your description of the world uses women as sexual objects and refers to employees as if they were cattle, it has an impact on real people in and outside of the room."*
>
> *—Rachel Robasciotti, founder and principal, Robasciotti & Philipson*

Sonya Dreizler, founder of the impact-investing consulting firm Solutions With Sonya and another conference participant, also spoke out: "Since this content is not about business issues, I'm choosing to break [the event's] code of privacy to confirm that the comments from the stage were indeed outrageous."

Fisher also made crude statements at an event in 2018. "There were similar comments to what Alex [Chalekian] referenced about advances towards women and just some sexual comments that you could tell the audience was uncomfortable with. And there were comments afterwards about how they could not believe … what [Fisher said]," according to advisor Justin Castelli of RLS Wealth Management.

Equally unbelievable to some have been Fisher's responses to the recent remarks. After seeing Chalekian's video, Fisher first said in a statement: "While I said most of the words he cited, he wasn't hearing the context of what I was communicating and seems to have misconstrued its essence — certainly misconstrued my intended meaning."

He added: "The rest is just nonsense. … To the extent he or others in that large crowd were offended, I apologize most sincerely."

Fisher told Bloomberg: "I have given a lot of talks, a lot of times, in a lot of places and said stuff like this and never gotten that type of response. Mostly the audience understands what I am saying." Still, he added, "I regret I accepted that speech invitation because it was kind of a pain in the neck. I wonder if anybody will be candid at one of these Tiburon events again."

A more official apology was issued on Oct. 10: "Some of the words and phrases I used during a recent conference to make certain points were clearly wrong, and I shouldn't have made them. I realize this kind of language has no place in our company or industry. I sincerely apologize."

Nearly a month later, though, the firm returned to its defensive stance. "Any fair account … would acknowledge that Ken used the language he did to underscore how some advisors … behave in pushing their services on prospective clients. Given most people's privacy about their financial life, aggressive sales pitches are the equivalent of a crude come-on in a bar. His point was, that's no way for a financial advisor to behave," according to John Dillard, the firm's head of global public relations, who spoke recently to the *Los Angeles Times*.

Ironically, Fisher's firm has been accused of such behavior. Since 2016, 125 individuals have filed grievances against Fisher Investments with the Federal Trade Commission, Bloomberg reports. The firm's "hardball" tactics include marketing phone calls, spam emails and impersonations of supposed friends, coworkers and government officials. In September, Fisher told ThinkAdvisor the firm spends some 6% of revenues on marketing.

"The firm itself, and Ken to a certain extent, has a reputation in the industry that rubs people the wrong way," said Kirsten Plonner, communications chief of FiComm Partners. "People [have] turned a blind eye, and he's known for making off-color remarks; there's nothing illegal or criminal about that, except [on Oct. 8], it really struck a nerve in a big way."

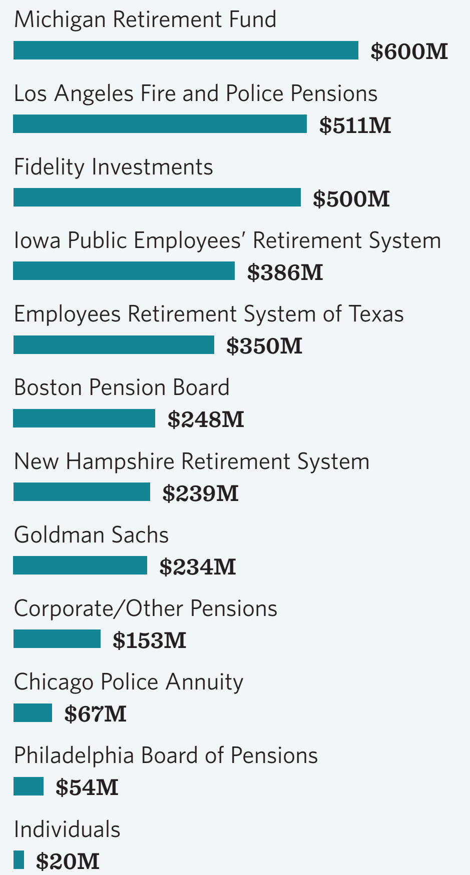
Advisor Reactions

Poll data collected by *Investment Advisor*/ThinkAdvisor.com support Plonner's conclusion. In addition, the survey results point to a strong consensus on bad behavior in the industry and how to respond to it, though there is less agreement on how widespread the problem is.

- The majority of financial professionals polled believe Fisher's off-color remarks were sexist/highly inappropriate, garnering 70% of the 1,350-plus responses overall — with 85% of women and 65% of men expressing this view (page 30).
- Even stronger is the consensus view over withdrawing assets from Fisher Investments as an appropriate response to his comments: It has the approval of 86% of responses (92% of women's/83% of men's).
- When asked if these redemptions send a clear message that his behavior is unacceptable, 88% of those taking the poll (91% women/87% men) say "yes."
- A strong majority, 84%, view Fisher's banning from two industry events (where he's made lewd remarks) as an appropriate response, and 75% would not attend an event with Fisher as a speaker.
- The consensus, though, breaks down over the frequency of behavior displayed by Fisher and others. Most women polled, 61%, say such behavior is common in the industry vs. a minority of men, 30%. (See "Do Better," page 32.)
- As for initial reactions to the specific comments made by Fisher, 47% of men were shocked/disgusted vs. 39% of women. Some 38% of women found the remarks unsurprising vs. 26% of men. (Others were either surprised or not shocked/disgusted.)
- Concerning the general problem of verbal harassment in the business, 80% of women say it is somewhat or very common vs. 48% of men.

Quitting Fisher

Clients that have removed about $3.4 billion assets from Fisher Investments in the wake of Chair Ken Fisher's lewd comment include:



Sources: *Bloomberg, CNBC, Reuters (as of 11/19/19)*

- In terms of physical harassment and its frequency, 59% of women believe it is somewhat or very common vs. 27% of men.
- There is a strong consensus on ending mandatory arbitration and giving employees the right to sue over sexual harassment at work: 82% of women and 67% of men support this move, or 71% of all respondents.

Forward Momentum

Overall, the #MeToo movement, Fearless Girl statue and work being done by Wall Street veterans like Sallie Krawcheck — along with the shifting views of advisors young and old — are making an impact, those working in financial services say.

"We've all heard it, but none of us are at [Fisher's] status, and [about] two years ago, lots of people were less likely to say something," said RLS Wealth Management's Castelli. "In the past couple of years, we are done letting this stuff happen and want to be advocates for everyone … and not let this stuff go."

Like others in the business, William McCance was shocked when he first heard the Fisher news. "I thought, 'Oh no. We've taken 10 huge steps backwards,' " said the head of TAG Group, a broker-dealer/RIA. For some jobs at TAG, there's one female applicant for every five men who apply. "Comments like those of Ken Fisher don't help us at all," he said.

The response to the remarks, though, has impressed him. "Fisher was called out quickly. The #Metoo movement has done a tremendous job at allowing people to focus on this [type of behavior]," McCance said. "The reaction was exactly appropriate to what the comments were. Things aligned perfectly."

The executive, who has two adult daughters, believes the industry began making improvements in its treatment of women

TIMELINE

- **Oct. 8, 2019** Ken Fisher makes lewd remarks during fireside chat at Tiburon CEO Summit.
- **Oct. 9** Attendee Alex Chalekian posts video on Twitter describing his disgust with Fisher's comments.
- **Oct. 10** Banned from future events by Tiburon, Fisher makes formal apology.
- **Oct. 11** News breaks that Michigan is pulling $600 million from Fisher Investments, which says it is forming diversity and inclusion task force.
- **Oct. 14** Leaders of Fisher's firm reportedly talk to pension advisor Mercer and disclose retail investors have pulled $20 million.
- **Oct. 15** Fidelity Investments and Florida pension group say they are reviewing Fisher ties; Philadelphia group to divest $54 million.
- **Oct. 16** Boston pension board moves to yank $248 million; Mercer voices concerns about possible outflows; Fisher's son defends the crude remarks.
- **Oct. 17** Investment firm NEPC advises 350 clients to cut ties to Fisher Investments over questionable "sustainability."
- **Oct. 18** Iowa pension group to divest $348 million; Air Products & Chemicals to pull $30 million, bringing total redemptions to over $1.3 billion.
- **Oct. 20** Ellevest CEO Sallie Krawcheck posts blog entitled "Let's Demand Better From the Financial Services Industry."

starting in the 1990s. “To me, this [Fisher episode] is a manifestation of the past coming back, like the paint underneath showing through. It means we have to keep painting the wall, so it stays the color we want it to be. We have to continue to be vigilant ... and speak out when we see situations such as this.”

Deeper changes in the industry, McCance cautions, are likely “to take a long, long time.” Still, his daughters have shown him the momentum. “They’ve said they’d walk out of a job interview if they felt a question was inappropriate,” he said.

> *“I hope ... advisors and others will think before they speak. And as we put together conferences and invitations, we will vet [speakers] better and have more diversity and inclusion of those we ask to speak.”*
>
> *—Marci Bair, president of Bair Financial Planning*

Others are more upbeat on what the latest developments mean. When asked if they represent a turning point for the industry, Marci Bair, president of Bair Financial Planning, was inequivocabile: “Yes, [they’ve] sparked enough interest and conversation that hopefully it’s not just a two-day event.”

What’s changed? “This is the first public acknowledgement of the behavior of someone ... in financial services who’s that well known and that high profile,” Bair said. “Today, with social media, it’s easy to put something out there — which Ken Fisher and others need to be aware of.”

“I hope ... advisors and others will think before they speak,” she explained. “And as we put together conferences and invitations, we will vet [speakers] better and have more diversity and inclusion of those we ask to speak.”

Chalekian’s video — viewed over 100,000 times in the first week alone — “shows the changing of advisors’ attitudes,” Bair said. “This time was different, because Alex spoke out and others supported him.” Plus, the 69-year-old Fisher was banned from the event where the comments were made.

Old Playbook Is ‘Done’

While there are “lots of lessons to learn” from Fisher’s remarks and the attention they are receiving, one stands out: “The old playbook does not play anymore. It’s done,” according to April Rudin, CEO of the Rudin Group, a strategic marketing firm.

With Chalekian’s video, the wealth industry has a clear view of “the huge disconnect between the generations — and within that, the role of women and men in the industry,” Rudin said. “If the industry wants to attract women, it has to sing a different song and change its appeal.”

And it’s not only women, she adds. “As the industry tries to attract and engage with other generations, its content and concepts need to address them. Next-gen advisors and leaders have a different barometer. This is why Fisher’s playbook didn’t play with the audience [on Oct. 8].”

In a blog, the 43-year-old Chalekian shared: “We reached what I can only hope is another tipping point ... on topics that before now, we’ve only tip-toed around.” These topics include equality, diversity and inclusion.

“Sometimes it takes an unexpected catalyst to jolt us awake. Something feels different this time,” he said. “The energy and enthusiasm for tangible change is gathering strength fueled by hundreds, no, thousands of us in this business who are done accepting the status quo.”

As one survey respondent put it: “The shocking thing with Ken Fisher is that he did it into a microphone in the middle of the day. Honestly, enough is enough.”

Another shared: “The Fisher [situation] is a pivot point in the industry. The comments are so egregious that even the oldest of ‘old school’ are taking notice. It’s clear from this incident that the consequences of such behavior will be impactful.”

What Else Can/Should/Will Change?

Views vary on additional measures the industry can take to raise awareness and to improve its treatment of women. Today, everyone can be “a micro-media outlet,” Chalekian said. “Don’t assume you won’t be heard or that no one cares — use your platform to highlight the good and call out the bad.”

On Twitter, TD Ameritrade Institutional Director of Innovation Dani Fava said: “Our society is at an inflection point and elevating awareness about what’s acceptable and what’s not is important. KEEP. DOING. THAT.”

Cambridge Investment Research, for instance, recently adopted a code of conduct to address harassment at conferences and in other business interactions. “We ... believe this should be a turning point to bring awareness to the reality that it does happen and should not be tolerated at any level, on or off the record,” President and CEO Amy Webber said in a statement.

Such steps show the Fisher remarks and ensuing fallout are “making a difference” in gender issues in the business, said Pearl Planning President Melissa Joy, CFP: “But as for a tipping point, this is hard to say given our low numbers. It’s hard to visualize. It provides oxygen, or space, for an important topic. The door has been nudged open a bit wider.”

Members of the industry should review their gender biases and address them regularly, for instance. “Since I’m a woman, people assume I want to focus on only women clients, but I want both men and women,” Joy explained.

The advisor appreciates “how many men have stepped up, listened more and are moving the conversation forward, [but] our profession has lingered in its percentage of women. It’s better than some think, but it’s still so low, especially at the leadership level ... ,” she said.

“Unconscious bias plays out in advice given to clients in many ways, in terms of portfolios, decision-making, etc.,” Joy said. “That story is unwritten. Along with women having a safe and thriving workplace, it matters.”

The industry has diagnosed its problem, and now its members need “to speak up when [they] see or hear something, participate to elevate women in this industry and stay curious” especially about biases, said Sheri Fitts, who hosts Women Rocking Wall Street podcasts.

The Fisher developments represent “a tiny, tiny crack of a window that’s been opened” rather than a “tidal wave of change,” she said. The industry involves “too much money and a [conservative] culture, and it moves too slowly. I’ve been in the business for about 30 years. I hope I’m wrong.”

It’s too early to tell if this incident is the industry’s #MeToo moment, says Nia Impact Capital CEO Kristin Hull. It may bring more attention to how few women work in finance and serve as a call to action for opening doors so more women can. Wealth manager Robasciotti hopes “this watershed moment” brings more people to the table and get leaders “to step boldly towards an industry that works for everyone,” she said.

The real, lasting impacts of the Fisher comments and fallout depend on the industry’s response, says FiComm’s Plonner, who strongly believes this is the #MeToo moment for financial services. The industry has been trying to solve its gender challenge for a awhile. “But this struck a nerve, and the industry seized the opportunity to say, ‘Enough is enough,’” she said.

The tipping point that’s been reached is ambiguous, according to Plonner: “It’s now a matter of who takes up the challenge and how they take up the opportunities at hand. Are we going to do something, or ... let it peter out? Are we going to stop talking and start walking? Great things could come from this. Time will tell.” **IA**

Fisher Responds

A few weeks after Ken Fisher made his lewd remarks, the firm he leads began running full-page ads in *The New York Times* and other papers. The ads showcase women who work for the firm.

“These ad speaks to what it’s like to work at [the firm] rather than address the original issue,” said April Rudin of the Rudin Group. It “looks defensive, not offensive (i.e., ‘Ken won’t be involved daily at the firm’), and holds out the women as somehow nullifying his remarks; it’s like he’s using [them] to protect himself.”

According to Tina Powell of C-Suite Social Media, “There’s no story being told [in the ad] really ... . It’s the proverbial ‘adding insult to injury.’”

The firm, however, insists: “In recent weeks, women at all levels of Fisher Investments have expressed their growing frustration with the false portrayal of the company and its culture in the media, and they were looking for a way to share their own stories, which they feel are being ignored,” according to a statement.

Fisher Investments has some 3,500 employees, 30% of whom are women. It says 30% of managers and 23% of vice presidents and other leaders are female.

“I would say I understand and agree with some of the stuff that’s in the media that Ken’s comments were inappropriate,” said Rachel Winfield, a vice president who spoke to Bloomberg. “What Ken says and the experience of the culture are two separate things.” Some women said they felt compelled to be in the ads.

The playbook for firms in crisis mode, says Kirsten Plonner, chief of communications for FiComm Partners, is to own up to any wrongdoing or malfeasance, propose a solution and act on it. “Maintaining the status quo is not enough,” she added. “They need to demonstrate real change.” **— Janet Levaux**

Oct. 21
Fidelity Investments plans to divest $500 million, as Bloomberg reports details of the firm’s “hardball culture.”

Oct. 22
New Hampshire retirement group says it is withdrawing $239 million.

Oct. 24
Goldman Sachs ($234 million), Los Angeles fire/police pension board ($511 million) to redeem assets; Fisher tells staff via phone that business is “growing.”

Oct. 25
Texas pension group withdraws $350 million; paper in Camus, Washington, publishes Fisher letter that says firm “remains strong.”

Oct. 29
Fisher Investments holds meetings for female staff about ads; banker Eric Cantor says firms disrespecting women to lose assets.

Oct. 30
A Florida health system says it will pull $93 million from Fisher’s firm, bringing redemptions to almost $3.3 billion.

Nov. 1
Report of 125 FTC complaints over Fisher Investments’ marketing tactics; firm runs full-page ads with female staff in several papers.

Nov. 7
The firm says its assets are about $115 billion as of Oct. 31.

Nov. 8
A report reveals that Fisher Investments controls $6.2 billion of $22 billion market for exchange-traded notes.

Nov. 13
Women employed by the firm say they are divided over appearing in ads, according to a news story.

Sources: *Bloomberg, CNBC and Reuters*

Poll: What Do You Think of Fisher's Comments, Bad Industry Behavior and How to Address It?

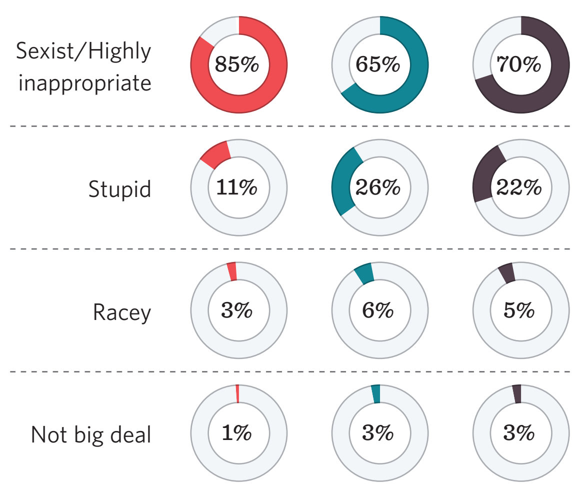
The disclosure of Ken Fisher's remarks during a closed-door session at a recent industry event and the resulting fallout are being carefully watched by financial advisors and the media. Given the significance of these developments, *Investment Advisor*/ThinkAdvisor.com polled financial professionals to ask them what they specifically think about Fisher's comments and the ensuing reactions, overall bad behavior in the industry, and what should come next to deter it.

The survey's 1,350-plus respondents — about 30% of whom are women — have common views on many themes across gender lines. However, on some topics, the differences in the opinions of men and women are striking.

The exclusive poll — which drew more than three times the number of advisor respondents gathered in some prior industry surveys on gender issues — could serve the financial-services business well in its quest for greater diversity and better treatment of all its participants.

● WOMEN ● MEN ● TOTAL RESPONDENTS

How would you describe the actual comments made by Fisher?



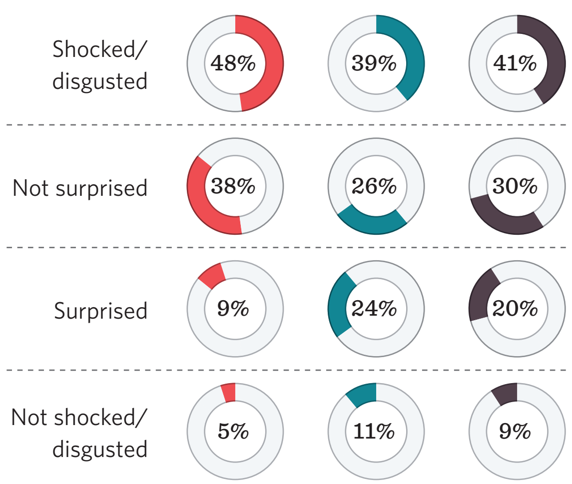
Is the withdrawal of assets from Fisher's firm due to the comments appropriate?

Do the withdrawals send a clear message that such behavior is unacceptable?

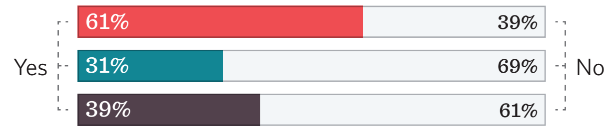
Is Fisher's banning from two industry events an appropriate response?

Would you attend an event that had Fisher as a speaker?

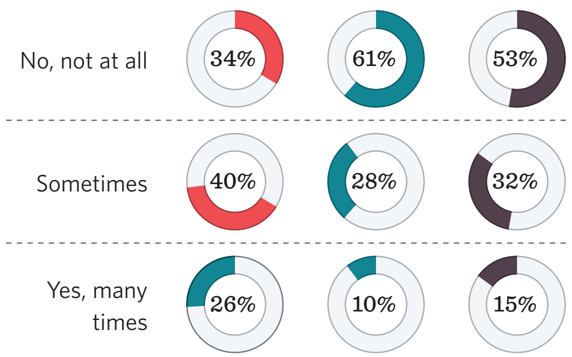
What was your first reaction to the news about Fisher's crude remarks?



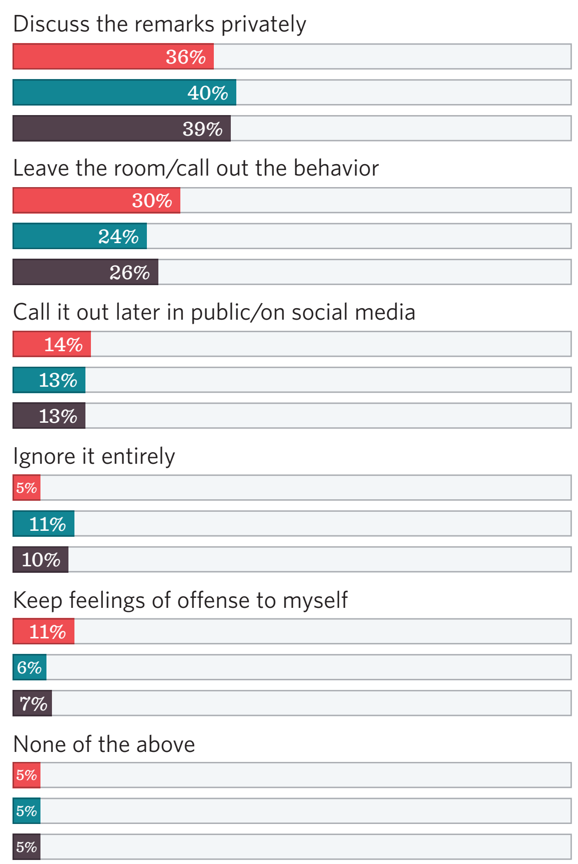
Is Fisher's behavior common in the industry?



Have you heard similar remarks at industry events?

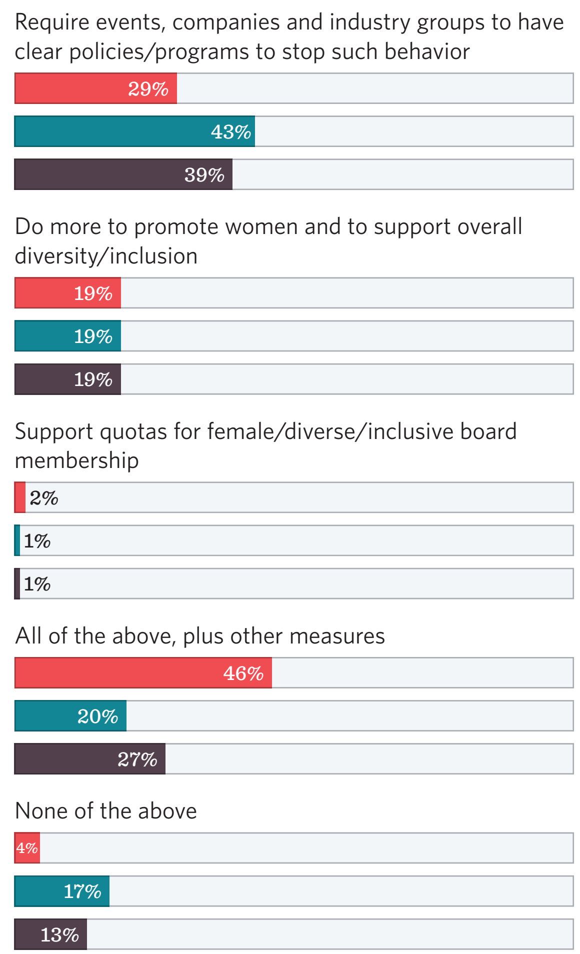


What would you do if heard similar remarks at a future industry event?



Should the industry end mandatory arbitration and give employees the right to sue employers if they experience sexual harassment on the job?

Beyond the end of mandatory arbitration, how else should the industry respond to harassment and other bad behavior?



Are you discussing the situation with colleagues/others?

Source: *Online Investment Advisor/ThinkAdvisor poll conducted from 11/9–11/19, 2019.* ***Note:*** *Percentages may not total 100 due to rounding.*

A Call to 'Do Better'

Our poll and a recent blog series show the need for new attitudes and approaches toward harassment, as Ken Fisher's crude comments have sparked renewed interest in it.

By Janet Levaux

A woman in the financial-services industry who was raped four years ago at the home of a former colleague is speaking out for the first time since the attack. Her story and others like it are garnering more attention and discussion in light of crude comments made by investment advisor Ken Fisher, which have put a fresh spotlight on all types of bad behavior in financial services — including those that are criminal in nature.

After "processing it" and discussing it with a therapist and others, "I'm now empowered ... to bring awareness that [rape, along with physical and verbal harassment] exist and for us all to be allies" against them, said Mary Moore of Advice Pay, an online billing and payment platform for financial planners. "So now when others see something [untoward happening], they will stand up."

Shortly after she was raped, Moore described what happened to her to another person, "She did not believe me. And if a victim gets a negative reaction immediately then they will not share [the truth] with others. I want those who hear [about these incidents] to know how important it is to believe [the victims]. And I hope those who have had this experience know that they are not alone and that they are supported."

She and her husband Alan Moore, CEO of XY Planning Network, believe the media should be willing to publish stories from anonymous sources, since many victims are not comfortable sharing their names and then their stories do not get told. They want women "to be aware and empowered" by such accounts, Alan said.

Mary also shared her story with Sonya Dreizler, who was present when Fisher made his recent lewd remarks at the Tiburon CEO Summit on Oct. 8. Dreizler, head of the ESG-investing consultancy Solutions with Sonya, has since posted a blog series with "real stories of sexual harassment, assault and discrimination" in the industry.

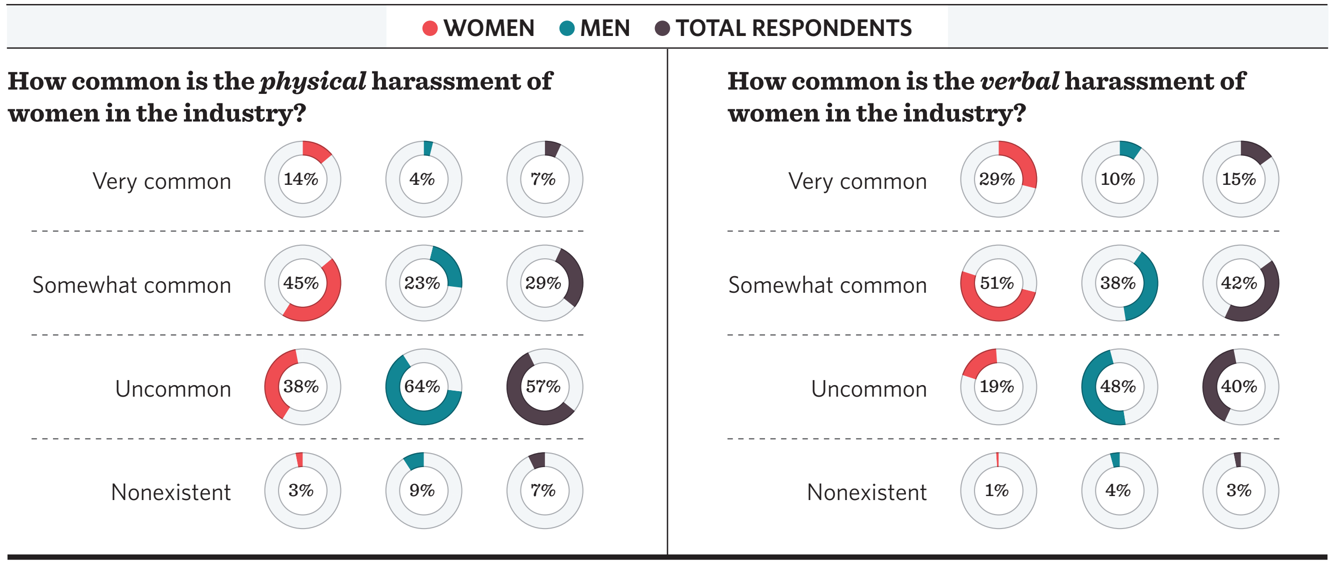
In one blog, Dreizler recalled an event when she was "invited up to a fellow attendee's hotel room, propositioned at a networking mixer and invited to a strip club for a business meeting." Similar incidents were told to her by 40 women, most of whom wish to remain anonymous.

After beginning work on the project last year, she put out a request on Twitter for stories from women in March. "The response was overwhelming," she said in the introductory online posting.

"Within 24 hours, dozens of women messaged me with their stories. As women who know me vouched for my ability to keep their privacy, more stories rolled in. ... Women I have never met poured their hearts out to me. The palpable fear associated with telling these stories was also remarkable," Dreizler explained.

Her aim for the "Do Better" series has been for members of the industry to genuinely and patiently listen "to women's experiences to better understand the problem" before moving to address it," she said. "Unchecked bad behavior runs rampant at many financial-services conferences," she added.

In the blog series, the executive recalls talking with a group of men at an industry event, one of whom "made a joke about raping me; the other men in the circle either laughed or said nothing ... . I have many personal experiences with sexual harassment, assault and discrimination, and almost every woman I know who has worked in financial services for an extended amount of time has her own set of stories."



Source: *Online Investment Advisor/ThinkAdvisor poll conducted from 11/9–11/19, 2019.* **Note:** *Percentages may not total 100 due to rounding.*

Gender-Based Views

A key motivation for Dreizler's writings on harassment is "the big gap between what women and men perceive," she said in an interview. "While this may make sense, it's frustrating for women on the receiving end of harassment."

A recent *Investment Advisor*/ThinkAdvisor poll completed by over 1,350 respondents bears this out. The majority of female survey participants, 59%, say the physical harassment of women is somewhat or very common in the industry vs. just 27% or men. Most men taking the poll, 73%, believe the physical harassment of women is uncommon or nonexistent in financial services vs. 41% of women.

"I'd like men in industry to really understand the depth and breadth of harassment, assault and discrimination that happens in financial services, and that's why I thought I needed to tell stories ... that would resonate with them," Dreizler said.

In this publication's poll, the vast majority of women, 80%, believe the verbal harassment of women is somewhat or very common in financial services vs. less than half, 48%, of men. Only 20% of women say this behavior is uncommon or nonexistent in the industry vs. 52% or men.

In addition to the gap in perceptions of harassment and assault, "Women do not talk about [these issues] generally because it is dangerous to our careers," Dreizler said.

"That's why I thought about how I could make that leap for men not participating in this harassment to what women face. I could only do that by collecting the stories anonymously" and sharing them online, she explained.

"We are not ready to talk about [these issues] as an industry. But I do not want the harassment topic in financial services to be a 2019" discussion topic, Dreizler added. "I hope it is a start to the conversation."

What to Do

The industry would do well to begin improving its treatment of women by looking at what goes on at conferences. "So much bad behavior happens at these events, so it's a great place to reverse the trends," Dreizler said.

Conference organizers "have a responsibility to create and maintain a safe and welcoming environment for all participants," she explained. Plus, they should have codes of conduct that attendees, sponsors, speakers and staff must agree to.

XY Planning Network, which Alan leads, has an anti-harassment policy for its conferences. He says this approach was prompted by his wife's experience. Cambridge Investment Research recently instituted a code of conduct, too.

This publication's survey finds that both women and men agree on such reforms. A clear majority, 87%, of those completing the poll says events, firms and industry groups should have clear policies/programs to stop harassment/bad behavior, do more to promote women and support diversity, including quotas to boost board diversity, and take other measures.

Most, 71%, say the industry should end mandatory arbitration and give employees the right to sue employers if they experience sexual harassment on the job. Over 300 survey respondents commented on other specific steps the industry should take; several described the need for mandatory continuing education on sexual harassment with penalties for inappropriate conduct, for instance.

According to Dreizler, the Financial Industry Regulatory Authority "should consider updating it's regulations around disclosure of harassment." Today, arbitration that involves harassment cases are not disclosed on FINRA's BrokerCheck website, "so a broker who has been fired or 'allowed to resign' from one firm, can go on to the next firm and do the same thing again with no warning to the new firm."

In a statement, FINRA said its work is based on a "statutory mandate and focuses on investor protection and market integrity." Information about potential sexual harassment in the workplace "generally is not solicited on the Forms U4 or U5, as the forms are designed to focus on information specific to investment-related and investor protection matters."

The group added that it "recognizes the important role of the U.S. Equal Employment Opportunity Commission and its state and local counterparts to provide redress for discrimination and harassment issues in the workplace."

Nearly 100 claims made by women involving sexual harassment or hostile work environments and found in BrokerCheck, dating back to 1988, were compiled last year by the independent news group The Intercept and the nonprofit Investigative Fund.

Of these claims, 17 women won an award, and 60 were denied or dismissed. In the remaining cases, many arbitrators denied gender-related claims but granted awards on unrelated claims or were unclear about which exact claims were being addressed, the news analysis found.

(For the 14 cases of sexual harassment cases involving men, eight lost, four won, one received an award on an unrelated claim and one was expunged.)

As one survey respondent summed up possible remedies for bad behavior in general, including regulatory measures with different layers of severity: "We have to bring it to light more often and not sweep it under the rug. Sadly, Ken Fisher isn't unique. He's just the one who got caught." **IA**

PATRICK T. FALLON/BLOOMBERG

What Would Sallie Do?

Ellevest CEO and Wall Street veteran Sallie Krawcheck is speaking out about what can be done for the financial services business to improve not only its "conference culture" but also its hiring and promotion of women. The co-founder of the digital-advice platform for women posted her remarks in the wake of Fisher Investments Chairman Ken Fisher's recent lewd comments at an industry event.

While some news reports have emphasized "conference culture," the issue at stake is "bigger than *that*," explained the former head of wealth management at Bank of America and Citigroup. "It's about women feeling — and being — welcome not just at financial services conferences, but in the financial-services industry itself."

Krawcheck said in her blog post that the financial-services industry "has been almost completely silent during the #MeToo crisis." She continued: "But it's even bigger than that. Because who thinks the Ken Fishers of the world suddenly stop disrespecting women when they start making their investment and business decisions?"

Her answer: "The ripple effect of executives' decisions can be enormous, because the financial services industry serves as the lifeblood of our economy." The financial services business allocates capital in ways that result in some entities with wins and others with losses — and "women have, on average, [have] lost," according to Krawcheck, who points to the higher rates they pay for mortgage loans, for instance.

With the percentage of female advisors "stuck" at about 15% and an array of related issues, she asks: "Who is tired of all of this state of affairs? We all should be." The path forward can include, for instance, divesting funds from firms "that do not support women and put it in those that do," she said — adding that it's crucial to ask these four questions:

1. Does the firm require employees to agree to mandatory arbitration for sexual harassment claims or can they sue? Forcing women into arbitration is "why sexual harassment in the industry continues," she says.
2. Does the firm "go beyond platitudes" and have an equal number of women and men in senior leadership and profit-and-loss roles? "Anything below 50% women is too low," she said.
3. What's the firm's gender and ethnic pay gap? "Anything less than full equality here is unacceptable, because it is straightforward to measure and to fix," the Ellevest leader said.
4. Does the firm invest with "an eye to gender"? If not, "then industry statistics show that they overwhelmingly invest in men," according to Krawcheck.

More and more people don't want to do business with people and firms that "make us squirm in embarrassment at a conference. And none of us should allow our money to be managed at a company at which we wouldn't let our daughters work," she said.

Others — like Nia Impact Capital CEO Kristin Hull — agree. "To instigate [systematic] change, being vocal and visible about moving assets away from managers like Ken Fisher and into women-led companies, funds and managers, is what will make a big difference right now. We need large investors leading the way and creating a followable path." **— Janet Levaux**

To read Sonya Dreizler's "Do Better" blog series, go to: www.solutionswithsonya.com/do-better-series

A Family Affair

How One Wirehouse Is Welcoming Next-Gen Black Advisors

Young African Americans explain why they are joining their parents in the business.

By Janet Levaux

The industry statistics for minority participation are strikingly bad. The Certified Financial Planner Board of Standards says less than 3.5% of financial planners are black or Latino. But a group of Wells Fargo veterans and their children say programs focused on next-gen talent could be a key way to turn this situation around.

Ending discrimination against people of color in financial services, of course, has involved different measures over the years. Black advisors, for instance, have gone to court and won legal settlements with JPMorgan ($24 million in 2018), Wells Fargo ($35.5 million in 2017) and Merrill Lynch ($160 million in 2013).

A number of broker-dealers have set up networking groups and recruitment programs to help address the situation. Wells Fargo Advisors began staging its yearly conference for black/African American advisors and related professionals in 2009.

At this year's event in St. Louis, nearly 200 individuals attended, four of whom are veteran advisors and employees with children in the business at Wells Fargo. Their stories — exclusively told to *Investment Advisor*/ThinkAdvisor.com — highlight the difficulties they and other people of color have overcome, while showing new ways to boost minority participation in financial services. »

Chelsea Dawkins
Financial Relationship Advisor
Wells Fargo Advisors, Chicago
STARTED DECEMBER 2017

David Dawkins
Director, Diverse Client Segments
Wells Fargo Advisors, Orlando
STARTED JANUARY 1980 (AT MERRILL LYNCH)

The Dawkins

Chelsea Dawkins, a financial relationship advisor in Chicago, says she's on the right career path. (She is one of 625 FRAs, who work with clients with lower asset levels.)

"The reason I wanted to get into this [business] is that luckily I was born into a home in which my father's worked in finance and had that [background]," the junior Dawkins said.

Her father, David Dawkins, now the director of Diverse Client Segments for Wells Fargo Advisors, became an advisor some four decades ago.

"But so many people that look like me, and … that I know, don't know anything about finance," Chelsea explained. "And unfortunately it shows, right? We as a community, the black American community, struggle with finance and understanding what to do with it even when we get it."

This situation also motivated her to go into advisor work, she says: "I really wanted to join this business to help combat the issue that we face in the community — whether that's the wealth gap or a lack of knowledge. And [it's about] trying to build up our community, so we can continue to grow and to be active members of our society. Doing that takes resources and knowledge, so I really wanted to do this."

But she didn't want to go the "traditional way" in which after a few weeks of training, "you are on your own and … call your friends, call your family, anyone you know with any kind of money at all" to build your book of business, Chelsea explained.

At a branch in Chicago, she now works with several advisors and their clients. "I'm working with existing relationships, building those relationships and continuing to strengthen them. It's a little different approach than the traditional [one] — 'here's a phone book. And good luck,'" she said.

The training is spread over two years. "That gets you on your way and sets you up for success in a way that's very unique," Chelsea said.

"It's going great. The Chicago market is … very large, … so there are lots of advisors that I work with," she said. Plus, "My dad is … a phone call away if I run into anything and using his 40 years of experience has definitely been helpful."

The young advisor says she is talking to others about financial advice careers. "I told one person I met with, for instance, about the programs that we have here, and [that] it's an amazing opportunity for people interested in the business but who don't have the personal connections that people traditionally needed to be successful [in it]," Chelsea said.

Her father, who helps run Wells Fargo Advisors' diversity efforts that specifically focus on mentoring, says this and other recruitment and training programs are game-changers.

"We are doing something here that I think is incredible," David said, about the retention of next-gen advisors of color. "We've created a way to develop them, retain them and if they are interested, help them go into leadership, so that we can attract even more."

The senior Dawkins cut his teeth in the business in 1980 at Merrill Lynch. "The day I started I was called by two gentlemen. … I still remember their names, because they were the only two African American advisors I was aware of [back then]. They made a point of reaching out," David explained.

"Fast forward [to Wells Fargo's event this summer], when I walked into a room … and there were 170 of us!" he said. "I … said to myself, 'This looks like a black African American summit.'"

"I had an emotional experience. I cried about it. After … [so many years] in the business …, for the first time I felt like I was among people of a common experience who understood what I lived for [so long]," David explained. "Yeah, I was emotional."

These sentiments and a desire to see more people of color in the business are why "I am doing what I do today. … And I am happy and proud to be a part of an organization that sees that as critical to the future. That diversity is important. And we're very serious about it," the senior Dawkins explained.

His daughter says that the program for financial relationship advisors includes people of many different backgrounds. "We're kind of changing the face of financial advising, which is really interesting," she said.

Her father says such programs are essential, both for Wells Fargo and for the broader community. "We are innovating on that and creating a model that hopefully one day others will replicate. I'm proud to be one of those leading that.

"Ultimately, then, Wells Fargo can be the destination of choice for financial advisors and leaders in our business, for team members and for clients," he said. "We're looking to change their financial futures and help them succeed financially."

The Stackers

Angela Ruffin-Stacker
Senior Vice President, Diverse Financial Advisor Recruiting Strategy
Wells Fargo Advisors, St. Louis
STARTED JUNE 2003 (AT A.G. EDWARDS)

Chase Stacker
Financial Relationship Advisor
Wells Fargo Advisors, San Francisco
STARTED FEBRUARY 2018

Chase Stacker remembers his mother Angela Ruffin-Stacker studying for the Series 7 exam more than a decade ago. "I had no idea why she had all this paperwork and was doing what I call 'homework,'" he said, adding that she "never pushed me into being in this industry."

But his mother's time with A.G. Edwards, Wachovia and Wells Fargo exposed him to the advisory world. "I always felt like part of this family. And her cohorts have always been incredibly supportive. This has all helped a lot," Stacker said.

He ended up working at Wells Fargo Advisors' base in St. Louis and then moved to San Francisco, where the parent firm is located. Like Chelsea Dawkins, he is a financial relationship advisor.

"Something clicked in my mind and I said, 'You know, I've heard about the next-generation talent role and this new financial relationship advisor role, … and I really just decided I wanted to take that shot and set myself up for a career," the younger Stacker said.

Wells Fargo Advisors' yearly African American summit has become "a fun and exciting meeting to come to," according to his mother, who is a senior vice president of the firm's Diverse Financial Recruiting Strategy. "It's a meeting that everybody looks forward to each and every year."

Along with veteran and next-gen advisors, the event also includes African-American prospects; 20 attended this year's gathering. "That part of the meeting has just increased and enhanced the experience over time, because it has created a buzz in the marketplace," said Ruffin-Stacker.

"Our [prospective-advisor] guests always walk away with, 'Wow. I've never been in a room with that many African American advisors,'" she said. "Our African American advisor population continues to grow, and I can only see that growing exponentially over time based on our next-gen advisors, as well as our experienced advisors. I … see this as an upward trajectory."

Her son agrees. "I am seeing how many more African Americans in my role are here … ," he said. "Now that we're getting this next generation and focusing so much on diversity, it doesn't really have a choice but to grow."

Alan Prestwood
Financial Advisor/Senior Vice President-Investments
Wells Fargo Advisors, Melbourne, Florida
STARTED JUNE 1989 (AT MERRILL LYNCH)

Jason Prestwood
Financial Advisor
Wells Fargo Advisors, Melbourne, Florida
STARTED FEBRUARY 2015

The Prestwoods

Jason Prestwood decided to sign up for Wells Fargo Advisors' associate advisor training program (which is like an apprenticeship) in 2014, 15 years after his father, Alan, started in the business at Merrill Lynch. They now do business together in Melbourne, Florida.

"After working in technology and data [solutions] for some time, I felt that I was done with options, so I talked to my dad," Jason said, adding that he wanted "a different opportunity." "Dad said basically, 'You should join my team.'"

(Wells Fargo has about 600 financial advisors in training; it also has some 220 digital-based financial advisors as part of its next-gen efforts.)

One growth strategy of the Prestwoods, according to Alan, is hosting a monthly birthday dinner for the team's top clients: "We let them know that we really appreciate their business and thank them, look for referrals."

To add next-gen clients, the Prestwoods get to know their clients' families, Alan says, and they "have [been] pretty successful at keeping these assets with us and at having those who inherit the money bring in more assets, as well." And with Jason on board, the team has been hosting events that cater to next-gen prospects and clients, including movies and bowling.

As for Wells Fargo Advisors, the increased number of minority advisors "means that the programs that are being implemented and developed are actually working," the senior advisor says.

Jason said meeting David Kowach, the prior head of WFA (and now head of Community Banking) when he started out had an impact on him. "He talked about diversity and inclusion and that they recognized there was an issue. Now, you know, five years later, I see the progress that's been made."

Overall, more needs to be done to bring in minorities. "The opportunity needs to be marketed," Alan said. "We as a company and we as an industry need to market the position itself and that in turn will help others to know that it is available."

For instance, advertising campaigns that feature images of and appearances by African American advisors can "send an extra signal to those watching," he said. "Then, those seeing the ads might say, 'Wow. I never thought about that [as a career].'"

Courtney Griffith
Associate Financial Advisor
Wells Fargo Advisors,
Lake Charles, Louisiana
STARTED JANUARY 2015

Tonya Griffith
Financial Advisor/
First Vice President-
Investment Officer
Wells Fargo Advisors,
Lake Charles, Louisiana.
STARTED SEPTEMBER 2001
(AT A.G. EDWARDS)

The Griffiths

With close to 20 years as an advisor, Tonya Griffith says she's thought a lot about what her retirement will look like and has watched many male advisors keep the business in the family.

"I saw the advantage of this [approach] for the clients, who felt reassured" that their portfolio management and contact with an advisor would be consistent after their advisor left the business, explained the head of Griffith Financial Group in Lake Charles, Louisiana.

About five years ago, the veteran advisor brought daughter Courtney to a women's summit hosted by Wells Fargo Advisors and introduced her to Mary Mack, now head of consumer banking for the parent firm.

"Courtney said, 'These ladies are phenomenal,' and ... [later] she said, 'OK, tell me what you do.' That started the transformation," said Tonya, who believes she and her daughter — one of 475 associate financial advisors (or AFAs) with Wells Fargo — are likely the only black mother-daughter advisory team in the U.S.

She does feel positive that their situation could change: "The industry is changing so rapidly. Our firm recognizes the lack of diversity within the industry as a whole and wants to put programs in place to ensure the success of the next generation coming in."

"The AFA program opens the door for me to hire a young person..., and it's a true success story for me," Tonya added. "I can assure clients that their plans will stay intact if and when I decide to exit the business."

Plus, Courtney is speaking to her clients and their family members, which should mean strong retention of clients and their wealth. "I'm so pleased and excited that she is here," the veteran advisor said.

Her daughter agrees. "People kept speaking about to me about how tough it would be to work with my mom. We get along great. When I struggle, she picks up on that, and when she has an issue, I can jump in to help," the younger advisor said.

It's a good blend, her mother points out: "My strength is that I, as a baby boomer, can make clients [of that generation] comfortable. But with all the changes, Courtney is so tech savvy, research focused and systematic. That means I can focus on what I do best."

"Her research, tech skills and all address the millennial generation and others who will inherit wealth," Tonya explained.

Overall, she says, their team represents what lies ahead for the firm and the industry. "Wells Fargo now understands the changing dynamics of our society and knows that is it is important to support underserved populations in general to ensure that every opportunity is given for success." **IA**

Janet Levaux is editor-in-chief of Investment Advisor. *She can be reached at jlevaux@alm.com.*

By Mark Tibergien

When Giving Back Means Lifting Up

How can you make a difference in your community?

Topics covered include savings, banking, payment types, credit scores, financing higher education, renting vs. owning, insurance, taxes, consumer protection and investing.

Our business suffers from a reputation problem — yet we know thousands of advisors who positively impact their communities every day. Why is there a disconnect between perception and reality?

In a 2016 poll by the American Institute of Individual Investors, 62% of the respondents said they mistrust financial advisors. My own observation is that while the financial services world has a few bad apples — just as any profession — advisors want to help people. So how can we display that purpose?

Individual consumers often lack the confidence and knowledge to make important financial decisions, and this makes them vulnerable to those who would prey on them for financial gain. I see an opportunity here, a chance to help people take control of their financial lives.

To address this need, BNY Mellon Pershing has undertaken an initiative to encourage advisors to deliver personal financial education to schools in their community or their alma mater. We created a test partnership with EverFi to promote this engagement. EverFi delivers a broad menu of digital educational solutions to kids, with sponsorship from many financial organizations. Topics covered in this program include savings, banking, payment types, credit scores, financing higher education, renting vs. owning, insurance, taxes, consumer protection and investing. Over the past few years, high school learners increased their knowledge of financial issues by 75%.

Prior to undertaking the EverFi partnership, I helped my former school in Michigan's Upper Peninsula to implement a financial literacy class for high school seniors. This idea has been replicated by many other advisors around the country. The results and the feedback have been tremendous — in fact, we heard directly from students in the program when nine teams presented their best ideas to Gladstone School's superintendent, the lead teacher for the financial education program and me. Remarkably, three of the teams recommended that a similar class be created for their parents. Without a doubt, this awareness of the importance of financial literacy will help these young people take control of their futures.

More financial advisors are undertaking their own initiatives to create a better understanding of financial choices. Following are just three examples out of scores of initiatives that I have heard about. These programs do help the industry's reputation, but none of these firms is doing it for bragging rights. They are on a mission to give back to their communities and to improve the lives of others who are less fortunate:

1. Bob Swift, the founder of TCI Wealth, created a foundation three years ago to provide financial education to young adults of moderate means. Called the Third Decade Program, Bob's foundation has been funded by his wealth management firm. The students pay no tuition. Bob believes that an introduction to financial planning benefits young people as they enter the workforce. They can start to apply the lessons to their everyday choices right away. TCI delivers 10 hours of class, after which each student receives $1,000 for a Roth IRA. In April 2019 they had their 500th graduate of the program.

Now TCI wants to show other financial advisors how to deliver a similar experience in their communities. This is a personal passion of the TCI Wealth practitioners who view it as their responsibility to help individuals prepare for the many choices they will be confronted with on their path to a better financial life.

2. BLB&B Advisors in Montgomeryville, Pennsylvania is another firm that puts its money where its mouth is. The firm's founder — the late Frank Burke — established the Cedarcrest Charitable Foundation and appointed members of the firm to its board. His successors have continued this legacy. Now known as BLBB Charitable, the firm and its sizeable foundation is dedicated to philanthropic giving for people in need. As part of their firm's culture, they encourage everyone within BLB&B to get involved in community service activities, which they in turn support with funding for critical initiatives. They match 2:1 money raised or donated by their employees and partners up to $5,000.

One of the foundation's directors and firm leaders, John Lawton, says that "not only are we making an impact on the communities in which we live and work, this emphasis on community involvement enriches our culture and provides a great framework for leadership development within our firm." A new financial literacy initiative is now a priority for the firm in order to help individuals make a connection between the choices they make and their financial health.

3. Another successful Philadelphia-area financial advisor, **Mike Piotrowicz of Legacy Advisors**, was inspired by the work of Frank Burke and John Lawton to start a foundation when he was part of another area business, Kistler Tiffany. When Mike started his own advisory firm, he created Legacy Foundation. Mike also gives of his time having served for 30 years on the board of Williamson College of the Trades (which gives high school students free room and board while preparing them for life as an adult. This 140-year-old school serves low-income students, providing practical education in trades including masonry, carpentry and horticulture. They emphasize character, integrity, faith and academic discipline. Most of the students who graduate from Williamson receive job offers. Mike says, "It has become a safe place to get kids to learn, and a life lesson in how to earn."

PHOTO: SIRASTOCK/SHUTTERSTOCK

[These] firms focus on different stages in education, from elementary students to young adults entering the workforce. Whatever the age, students discover that the choices they make around money are important.

As Mike put it, "it is easy to forget how fortunate we are in this business. We can have hard times, but this gives us real perspective. Our so-called dark struggles are not struggles at all in comparison. When we see how we can impact the lives of these kids, we can also see the pride of their parents in their success."

While the efforts of TCI, BLB&B and Legacy provide just a few examples, they demonstrate the power of including community service in the work we do. Each of these firms has found that they tend to attract clients and employees to their advisory firms who share these values. Each person I talked to about their community service said that the process has made them more empathetic and more aware that their efforts can improve the communities around them for years to come.

The firms I mentioned focus on different stages in education, from elementary students to young adults entering the workforce. Whatever the age, students discover that the choices they make around money are important.

Many advisors have dedicated programs to serve the homeless and hungry in their communities, as well as to support the arts. We have a skill and knowledge set to share as well. If you haven't done so already, consider how your organization might make a difference in educating young people in local schools and career development programs. In reaching out, advisors also enrich the work lives of employees and bolster the reputation of the advisory business, a profession that should be known for positively impacting others. **IA**

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By Melanie Waddell

SEC Ad Rule Revamp Is a Game Changer

While still combing through the 507-page plan, industry players can't contain their excitement over much-needed reform.

The SEC's proposed updates would let advisors use testimonials, endorsements and third-party ratings to solicit clients, subject to certain conditions.

Advisors, industry officials and compliance pros are hailing the Securities and Exchange Commission's plan to modernize its outdated 50-year-old Advertising Rule as a game changer for the industry, with some arguing that the proposed changes are poised to put the advisory profession on equal footing with others.

"This is BIG news!" Lisa Kirchenbauer, president of Omega Wealth Management in Arlington, Virginia, exclaimed in a mid-November email message. "I have never understood why people like realtors, also dealing with money and client trust, could have testimonials but we couldn't. There has been a weird double standard for many years."

The SEC's proposed updates would let advisors use testimonials, endorsements and third-party ratings to solicit clients, subject to certain conditions. The reforms also include tailored requirements for the presentation of performance results, based on an ad's intended audience.

"Whew, it's about time!" stated advisor and Nerds Eye View blogger Michael Kitces, in a mid-November email to me. "I understand the fundamental purpose of the anti-testimonial rule as originally written — to prevent advisors from inappropriately touting returns and cherry-picking the happiest clients. But in practice, financial advisors do so much more than 'just' manage portfolios for an investment return, including the full gamut of financial planning advice."

Kitces said he's "glad to see the SEC has recognized that there can be a more reasonable balance between still controlling the terms by which investment performance can be shared, while also allowing consumers to share their experiences with their advisor (and for the advisor to share those experiences with others)."

In releasing the plan in early November, which is out for a 60-day comment period, SEC Chairman Jay Clayton said "the advertising and solicitation rules provide important protections when advisors seek to attract clients and investors, yet neither rule has changed significantly since its adoption several decades ago."

The changes, Clayton added, "are designed to address market developments and to improve the quality of information available to investors, enabling them to make more informed choices." The changes aim to replace the current rule's "broadly drawn limitations with principles-based provisions," the agency said.

With the industry still digesting the 507-page plan, Gail Bernstein, general counsel for the Investment Adviser Association, said that "based on an initial take, the proposal appears to address several of the specific themes we'd raised with Commission staff."

Most notably, Bernstein added, "it appears to take a principles-based, evergreen, approach to the rule in contrast to the per se prohibitions that currently exist. It also appears to distinguish between retail and institutional investors, and would no longer prohibit the use of testimonials. These would all be extremely welcome changes."

The plan "is a significant step in the right direction," said Karen Barr, IAA's president and CEO, adding the rule hasn't been substantively amended since 1961 — "long before social media, long before the internet, even before fax machines."

IAA, she continued, has been "urging the SEC to update the rule for nearly 20 years." Because of the "badly outdated rule, investment advisors are generally prevented from using communications and marketing methods that long ago became standard business practice elsewhere in the economy."

The IAA has been pushing the Commission "to take a principles-based approach to modernizing the rule that is flexible enough to adapt as technology and business practices continue to evolve."

DEFINITION OF 'ADVERTISING' ALTERED

The securities regulator's plan would define "advertisement" to include communications "disseminated by any means," which would replace the current rule's requirement that an ad be a "written" communication or a notice or other announcement "by radio or television."

Todd Cipperman of Cipperman Compliance Services noted in a recent alert that the SEC draft "would dramatically" alter current advisor marketing practices. The proposed Rule 206(4)-1 changes the definition of "advertising," Cipperman said, as well as "applies different standards to retail-directed advertisements" and requires "a responsible employee to review and approve all materials."

The agency explained that the proposed revision "would change the scope of the rule to encompass all promotional communications regardless of how they are disseminated," with certain exceptions.

Communications with clients and prospects, it added, "may be disseminated through emails, text messages, instant messages, electronic presentations, videos, films, podcasts, digital audio or video files, blogs, billboards, and all manner of social media, as well as by paper, including in newspapers, magazines and the mail."

Neither Rule 206(4)-1 nor Rule 206(4)-3 has been amended significantly since adoption in 1961 and 1979, respectively, the agency said.

"Since that time, the Commission and our staff have continued to learn about advisor marketing and solicitation practices, as those practices have evolved significantly with advancements in technology and the changes within the asset management industry and its investor base," the SEC explained.

The proposed amendments to the solicitation rule would expand the current rule to cover solicitation arrangements involving all forms of compensation, rather than only cash, subject to a new de minimis threshold. They also would update other aspects of the rule, such as who is disqualified from acting as a solicitor under the rule.

The plan "is a significant step in the right direction," as the rule hasn't been substantively amended since 1961 — "long before social media, long before the internet, even before fax machines."

—Karen Barr, IAA president and CEO

The Commission also voted to propose amendments to Form ADV, the investment advisor registration form, and Rule 204-2, the books and records rule, which would reflect the changes proposed to the advertising and solicitation rules.

Clara Shih, CEO of Hearsay Systems, maintains that the SEC's plan to modernize its outdated advertising rules will help advisors reach prospective clients, as "more and more people are not engaging" with traditional media — like television, radio and print — that advisors currently use.

Shih said in an interview that the SEC's planned change to its Advertising Rule is "a promising sign" for advisors, compliance teams and investors "because it provides clarity."

Because the proposal modernizes the definition of an advertisement, advisors could "post and accept testimonials (i.e. LinkedIn recommendations), endorsements, performance reports, and third-party ratings on social media. This is critical as prospective clients heavily rely on this data to make informed decisions when researching advisors," Shih said.

Currently, advisors are discouraged from leveraging social media as it's not clear what is and isn't allowed, she said.

Under the current Advertising Rule, a 'Like' on an advisor's LinkedIn post is interpreted as an endorsement, which violates the rule. "Additionally, advisors posting about specific investments could be considered an endorsement and be in violation" of the current rule.

Retail investors today, Shih continued, "naturally look to social media as part of their client journey, to validate whether they want to work with a particular advisor or want to continue working with an advisor."

She cited research by the Pew Charitable Trust, which found that 69% of American adults use at least one social media site, with use jumping to 88% among those age 18 to 29.

While investors, in many cases, still find advisors via referrals, "before they contact an advisor to whom they've been referred, … the first thing [investors] do is Google that person," Shih explained. "The first thing they're looking to validate is an advisor's LinkedIn profile. Who is this person? How long have they been in the business? How long have they been an advisor? Is this someone I can trust?"

The SEC modernizing its advertising rules "is just as much about giving investors access to information as it is about helping advisors," Shih said.

If the SEC's rule is adopted, "compliance teams will see an influx of social media activity from advisors wanting to host testimonials," Shih said. "Testimonials, like any other advertisements, have to be pre-approved by a registered principal. Compliance teams will need a way to manage these approval requests without doubling their headcount." **IA**

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By Angie Herbers

Set Goals That Build on What You've Got

Many advisors set themselves up for failure. Instead, take small steps to accomplish big growth.

Most growth plans that don't attain their goals fail not because the firm owner was lacking the required skills, but because the owner's goals were unrealistic.

With 2020 rapidly approaching, it's time to address one of the main challenges that owner advisors face: establishing goals for the coming year.

How can setting goals for a business be a challenge? By themselves, goals in business are basically harmless. Typically, they are expressed as a number, a time frame, an innovation, an addition, or a change.

The problems arise from how we think about them: as something that we now must do, create, attain, or achieve. And once we've set our goal, or goals, we usually believe that not attaining them is a failure on our or our teams' part — an indication that we're not really as good at what we do as we previously thought.

Today this behavior commonly is referred to as "setting ourselves up to fail." An example is setting a goal for your AUM growth to be attained within a specific time frame (for example, reaching $1 billion in AUM within the next three or five years.)

You can see some of the flaws in this approach, starting with the tendency to select an arbitrary number. That is, it's just a figure we've pulled out of thin air, based on nothing but wishful thinking.

In contrast, a more rational approach would involve making a realistic assessment of:

- What could you do to attract more client assets, more quickly, than your current rate and strategy?
- What can you do to better train your people serving clients?
- How can you be better at changing and leading your organization?

In my experience, most growth plans fail not because the firm owner was lacking the required skills, but because the owner's goals were unrealistic.

The reality is that growing an independent advisory business takes a lot of capital, time, hard work and realistic planning. While setting a big goal like the above may seem motivating, the other side of that coin is it also can create a lot of stress — and the more unrealistic the goal, the greater the stress.

MOVE OUTSIDE THE BOX

What's more, goal setting — whether unrealistic or not — tends to limit an owner's thinking. When firm owners set goals for themselves and their businesses, they often get so focused on reaching those specific targets that they fail to consider other alternatives that could be even more beneficial to their business.

For instance, a focus on reaching a specific AUM by a set date can prevent owners from looking at other non-AUM based services they could add to their business, such as tax planning, estate planning, 401(k)s, and more. Often, these other services can be more easily implemented at much lower costs — having an even larger impact on a firm's profitability and diversity of services.

Finally, setting goals can blind owners to existing issues in their businesses that may hamper the growth they are looking for. To help owners both reduce the stress of unrealistic goal setting and the fear of failing to attain those goals, they should start their growth plan by first making an assessment of where their firm is today, and how it would have to change to support the kind of increase they have in mind.

This assessment is not about what your goals should or shouldn't be, but rather creating a solid foundation in your current business before setting the goals and/or building and adding something new. Here are seven areas of advisory businesses that owners need to review prior to setting goals for the coming year.

1. Core values. Do you have them and are they implemented?

Many firm owners tend to fail in this area. Often they take the time to write out their core values then never implement them properly. Typically, owners don't explain values clearly to employees on how values apply to their work. And if owners do adequately explain them, there is no follow up to see how employees are acting within the core values. When everyone in the firm understands how their behavior drives the growth of the business, it's much easier to deliver consistently good client service.

2. Client service experience. What can be improved? While most firm owners start out with a clear idea of what they want the experience of their clients to be, they often stop refining and monitoring it overtime — thinking it cannot be improved or streamlined.

Over time, things in an advisory business tend to get more complicated, which slows the growth of the firm. Remember, the goal of client service is to enhance the advice that you give and make it better. Client service is always a work in progress. How will you make it better in the next year?

3. Sales process. How well do you communicate the value of what you provide? Most firms tend to focus on the technical stuff (e.g., portfolio management, financial planning, insurance, tax planning and estate planning), but they tend to leave out the results.

What your clients really want to know is how what you do will affect their lives and the lives of their loved ones. What goal can you make to communicate your value better?

4. Employment manual. Most firms have some kind of manual, and they guide the culture of the firm by telling employees about benefits — and the

PHOTO: ALEXXNDR/SHUTTERSTOCK

This assessment is not about what your goals should or shouldn't be, but rather creating a solid foundation in your current business before setting the goals and/or building and adding something new.

benefits of working at their firm. But they are rarely updated or improved as the company grows.

Costs rise every year, and new programs might have been added to make employees happier. Many owners ignore higher cost but regularly do cost/benefit analysis. To be fair to your employees, and to keep them and their growing expertise at your firm, it's important to keep your employment manual current and competitive. What goal can you set to enhance the culture of your firm?

5. Career tracks for employees. Despite all that's been written about them, most firms still don't have these pathways for employees. Make it a goal to create one. To keep your employees motivated and happy, it's important that they can grow within your firm.

If you do have one, take a hard look to see if it is working. Are your people growing in knowledge and productivity, getting better each day? If not, what goal can you make to improve growth of your employees?

6. Compensation. A compensation strategy evolves overtime and significantly influences behavior of employees. Is your structure getting the behavior you're looking for? You don't have to start from scratch and start over with the compensation strategy. What goal can you make to enhance it for the coming year?

7. Marketing strategy. The biggest problem with marketing is doing too much "stuff." Ask yourself if your marketing strategy is hard to understand or hard to implement, and whether it's even effective at all. Wherever you want to take your firm, your marketing strategy will be part of getting there. What small goal can you set to improve it?

Don't make big goals; make small ones that produce great results and work on doing a better job at this each year. These steps should propel you to growth beyond what you imagine is possible today. **IA**

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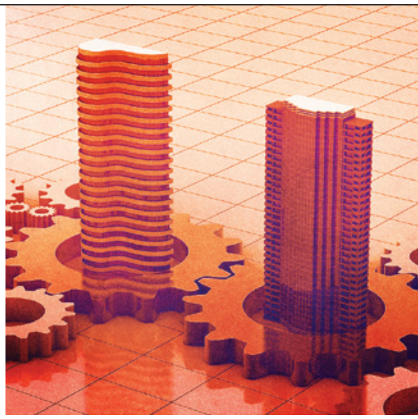
By Thomas D. Giachetti

Be Alert to M&A Nuances

The surge in acquisitions means opportunity for sellers, but they need to know what to expect.



As one of the finest M&A transaction lawyers in the country, my law partner Dan Sheridan provided insights on the recent merger and acquisition explosion in our industry.

DeVoe & Company's *RIA Dealbook* states 2019 is on track to be another record year for M&As involving RIAs. The drive towards consolidation and greater economies of scale, together with an ample supply of cash from private equity sponsors, continues to fuel what was already a very hot market.

In terms of fundamental deal structure, Dan said most transactions continue to fit into a fairly straightforward template. The first element is a split of purchase consideration between cash and buyer equity. The second element is a split between consideration payable at closing and earnouts payable over time, usually based upon some combination of client retention and achievement of growth targets.

There are wide variations in the relative proportions of cash versus equity and closing payment versus earnout, which tend to be dependent upon seller motivation and goals. For example, a selling advisor whose active time horizon is more than seven or 10 years is more likely to accept a greater proportion of buyer equity as well as lower proportion of closing cash. However, an advisor who is nearing retirement may not be interested in a large equity stake (especially one that is illiquid) or in taking substantial risk on client retention or growth.

Buyers also have their preferences. If a buyer wants to simply grow AUM and capitalize on efficiencies, they are less likely to offer equity as part of the consideration. Instead, they are more likely to emphasize earnout payments over closing cash. In some instances this may be perfectly acceptable, especially for a small RIA looking for some return on the goodwill value of his or her business prior to retirement.

In recent months, though, Dan has noticed a nuanced shift in deal terms, primarily around the issues of market risk and projected returns. Buyers now rarely accept "market risk" (*i.e.* the risk to deal value based on a decline in acquired revenues arising solely from market performance of AUM), while in the past that was a relatively common (or at least negotiable) deal point.

Additionally, earnout payments now often are tied either to year-over-year revenue growth, or to preservation of targeted earnings. Because earnings can fluctuate greatly based upon the expense profile of each individual business, the negotiation of earnouts measured at the level of earnings (as opposed to revenues) becomes simultaneously more difficult and more complex. When advising a seller, we are careful to point out that, if the business has high fixed expenses, a relatively modest drop in revenue can result in a catastrophic drop in earnings.

We also have observed an uptick in activity involving firms that have more diverse revenue streams. Some buyers are more interested in firms that offer tax preparation, insurance planning (including group benefits business), estate planning and "family office" type services to capture a greater share of the client spend. The problem with this profile is that diverse business lines do not fit in well with more simplistic market measures (*e.g.* annual advisory fees multiplied by a fixed multiple) and often have additional regulatory requirements. Both of these factors tend to extend the time and expense associated with negotiating and closing transactions.

While many participants in the M&A market remain cautiously optimistic about the future of the U.S. economy, there is a growing recognition of the risk of greater market volatility, especially as we approach an election year. Those factors no doubt will continue to influence the thinking of all parties, as well as key transaction terms. While some transaction features are likely to remain static, negotiation of these risks are likely to absorb more time and more "deal capital" than in years past. **IA**

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THE TECHNOLOGY COACH

By Dan Skiles

Cybersecurity a Bore? Not When You Get Hacked

Fraudsters now use "social engineering" to tailor attacks. Make sure you and your clients are educated on what to look for.

Cybersecurity is by far the most popular topic when I'm speaking with advisors. And rightfully so. Most conversations revolve around important action steps and "what are you hearing?" type questions for best protecting an advisory firm.

Unfortunately, fraudsters continue to evolve their attack strategies, and "social engineering" attacks, also called "spear phishing," are more frequent. In this attack, the fraudster uses information they know about the victim to gain trust, and then gains more information from the victim to ultimately execute the attack. Here is an example:

Your client's email has been hacked, and the fraudster is monitoring all the activity in real time. They probably won't send your firm a fraudulent email request, but they can see that your client frequently requests via email that you send money from their brokerage account to their ABC Bank account through the ACH system.

After the most recent ACH request, the fraudster calls your client posing as a representative from ABC Bank to verify the ACH transaction and to make sure that everything is in good order. Because the fraudster expects your client to be suspicious of the call, they say they will send a text message with an "authorization number" from the ABC Bank System.

The client believes this is legitimate and reads the authorization number to the fraudster. What the client doesn't realize is that the fraudster actually used ABC Bank's password reset process for sending the text message and now the fraudster has the authorization number to complete the password reset process

as if they were the client. They create a new password giving them full access to the client's ABC Bank account and essentially locking the client out of it at the same time.

Now more than ever, we have to be regularly warning, educating and training clients — and our colleagues — on what to do and not do. Here are some ideas:

Clients should always be suspicious with "different" and "odd" requests that involve their financial affairs. In fact, your year-end communications with clients is a good time to include critical cybersecurity guidance.

Provide clients a list of actions your firm would never do as it relates to money movement and other requests vulnerable to cyber fraud attacks. Include that your firm would never provide money movement instructions (either deposits or withdrawals) via email without requiring a verbal confirmation of the specific details. Also add that your firm would never email your client instructions and/or paperwork for opening a new account without any prior conversation or discussion.

Many advisors still include a standard disclaimer as part of their general voicemail greeting that says, "Trading instructions will not be executed if left on voicemail." Advisors should consider including money movement requests as part of this message as well. Maybe even consider adding such a statement in your email auto signature. Even a general statement like: "Don't be a victim of financial fraud. Be suspicious and verbally confirm all money movement requests," can have an influence and help clients understand their role in preventing a cyber fraud attack.

Share examples and stories of how the cybersecurity fraudsters execute attacks to educate clients. Start by using the example above. Even as fraudsters continue to evolve their cyber fraud attack strategies, there are common themes that can be identified. From obscure email instructions, to trying to fill in gaps of information with odd questions, to the heightened tone of urgency in the request all can be clues that something isn't right. Hopefully, this will cause the client to stop engagement with the fraudster.

Holidays and vacations can be a fertile season for the fraudsters to conduct their attacks. They know that when our lives get busy with both internal and external distractions, it can become easier for all of us (clients, staff, and advisors) to fall prey to their attacks. Maintain heightened scrutiny, and don't cut any corners with following your procedures. **IA**

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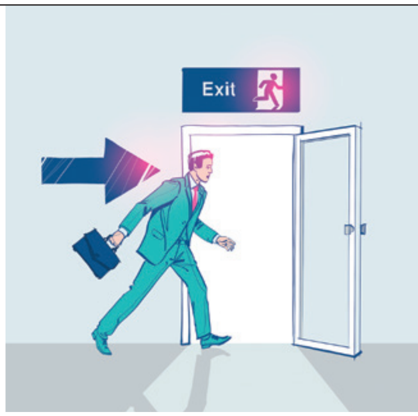
PHOTO: IVELIN RADKOV/SHUTTERSTOCK

By Caleb Brown

Is an Employee Ready to Jump Ship? Watch Out for These Signs

The thrill might be gone for some staff members who are ready to move on. Stay alert to these potential actions so you can be prepared.



Unexpectedly losing someone in your organization is one way to squash any momentum your firm has accrued during the usually slower summer months. Team members who have considered leaving in the past and have put their career prospects on hold to take vacations with their families and/or not make any big decisions around the upcoming holiday season will have more tempting offers come their way as firms start mapping out their human capital needs for 2020.

If you're worried about losing staff — or even if you aren't — here are 10 signs and or reasons that a valued team member may be looking elsewhere:

• **Passed over for a promotion.** This hurts feelings and bruises egos. If someone believes they have delivered strong performance and weren't recognized for what they feel they have earned, then they will look for a firm that will provide increased responsibilities, compensation and professional growth — and they will not have to look far as this is new hiring season. This also is a reason to clearly state the expectations and requirements for promotions ahead of time so staff knows what skills are needed in the position.

• **Leaving work earlier more frequently.** Potentially to interview with other firms and/or utilize their health and PTO benefits before losing them.

• **Acting like they have something to hide.** Most effective financial planners are skilled at reading people as that is what you do with your clients every day — thus they know how to tailor advice to take action. Also watch for reductions in communication with existing team members e.g. not going out to lunch any longer, etc.

• **Low engagement.** Could be in many forms, but usually less willingness to step up and take things on and not suggesting innovative ideas.

• **Reduced productivity.** Easy to spot if a team member was previously a high performer. Quantity and overall quality of work product drops substantially.

• **Negative attitude.** Could be in the form of initiating and/or increasing friction with existing team members because they know they won't be there much longer to have to deal with the fallout.

• **Less interested in pleasing clients/manager.** Missing deadlines, giving clients subpar service and reducing communication with manager. Or, increase of sarcastic comments about work, company, clients, and other team members.

• **Hesitant to commit to long term timelines.** Because most people generally do not want to cause excessive harm, above and beyond their leaving, to the organization, they feel guilty when projects with timelines that extend beyond their departure date are being discussed. In these cases, they will be vague, noncommittal, and try to avoid being put on the spot.

• **Lost Enthusiasm for mission of firm.** B.B. King said it best in his 1969 song, "*The Thrill is Gone*". As people's careers progress and lives change, their needs change, as do the firm's as well. They find themselves no longer excited about what the company stands for, where the firm is going, etc. *We frequently take calls from candidates all over the country who have become disenchanted with their firm's high minimums due to their desire to want to serve previously un(der)served populations.*

• **Had a major life change.** Substantial life changes often impedes logical thinking and cause people to make poor decisions. A firm we represent shared that one of their employees resigned to take a month off to tend to a new home purchase.

Finally, if none of these are clearly visible, but you sense something is not right, trust your gut and challenge yourself to take a closer look at what might be happening.

Next article, I'll address what actions to take if you have a team member about to jump ship. **IA**

Caleb Brown is a past chairman of FPA NextGen and partner in New Planner Recruiting LLC. He can be reached at NewPlannerRecruiting.com.

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