MEDIA REVEWS - June 8-15, 2021

When I looked back over my reviews of this month’s issue of Investment Advisor magazine, I was surprised at how many articles received a “high” relevance rating. There’s an introduction to Axios Bank, which purchased E\*TRADE Advisor Services for a relative song, and now is poised to make waves in the competitive advisor custodial space. Another article shows a disparity between consumer demand and advisor attitudes toward ESG investing, and Wade Pfaul makes some good points about the relative merits of allowing Social Security benefits to be delayed a few years vs. delaying the RMD start age to 75.

There’s an article that really takes you behind the scenes in the brokerage world and helps you see how and why brokers are leaving for independence, what they’re looking for and where they’re going. Another article does a moderately good job of itemizing the provisions of the Secure 2.0 bill coming to the door of the House, and Angie Herbers offers some advice on how to directly drive growth and profits at an advisory firm. Lastly, Tom Giachetti notes that the SEC was forced to do remote audits of advisory offices, and that seems to have improved their regulatory efforts.

I hope you have a great week.

Best,

Bob Veres

Inside Information

<http://www.bobveres.com>

Insider’s Forum conference - October 6-8, Nashville, TN

<http://www.insidersforum.com>

Articles that received a “high” relevance rating:

**“New Custodian Axios Eyes the Prize”**

by Tim Welsh

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=14#pg14>

Relevance: high

Axios Financial bought E\*TRADE Advisor Services (200 RIA custody relationships, $23 billion of combined assets) from Morgan Stanley for $55 million in cash—which, the article noted, is a lot less than the $275 million that E\*TRADE paid for Trust Company of America to acquire an advisor custody business. Morgan Stanley is apparently indifferent to the opportunity to service the RIA community, and simply decided to eat the loss.

But who the heck is Axios Bank? We are told it is a nationwide entity that provides consumer and business banking through distribution channels and affinity partners, and offers financing for residential properties. Subsidiaries include Axios Clearing LLC and Axios Invest, Inc., which provide clearing services to introducing broker-dealers and digital investment advisory services to lay investors. It also owns a robo: WiseBanyon, which provides digital wealth management for free. Now it also has the E\*TRADE Advisor Services tech platform, called Liberty, which includes reporting, CRM, rebalancing, proposal generation, e-signature, billing and tax management.

Who is the target market in the advisor community for the new acquisition? The article says that is still up in the air, but the firm will have to develop new, and deep, integrations with popular advisor software. (p. 12)

**“How to Bridge the ESG Divide”**

by Bernice Napach

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=18#pg18>

Relevance: high

A Cerulli survey of 1,000 advisory firms found that 58% of them see little investor interest in funds with an ESG strategy, but 44% of 1,200 retail investor households prefer ESG funds—in other words, a disconnect. Advisors who do offer ESG portfolios tend to limit them to their high-net-worth clients. When asked to rank the firms that had the best reputation for providing quality ESG offerings, 50% selected Vanguard, even though Vanguard has only five ESG funds available—and 44% chose BlackRock iShares. Another 16% of advisors rated Calvert (now a Morgan Stanley subsidiary) and Parnassus as having the best reputations for quality ESG offerings.

The article says that most advisors are saying they really don’t have the time or resources to develop ESG strategies, and rely on name brands when looking for them. We are told that Envestnet has launched an enhanced ESG due diligence framework for advisors, and these investments have become the fastest-growing segment of Envestnet’s money management universe. (p. 16)

**“Wade Pfau Makes Case for Raising Top Social Security Claiming Age to 72”**

by Ginger Szala

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=20#pg20>

Relevance: high

Pfau likes the idea of allowing the SS benefits to increase a couple more years more than the proposal to move the RMD start age from 72 to 75. His reasoning: the later Social Security date would give people more time to do strategic Roth conversions before they begin taking their Social Security benefits. He talks about filling up lower tax brackets with Roth conversions so clients can avoid higher brackets in future years—which allows you to avoid paying taxes on 85% of Social Security benefits. He notes that some people might be in the 22% tax bracket, but if they make $1 too much and are thrown into the highest Social Security bracket, and their effective marginal tax rate soars to 40%. And that extra dollar of taxable income would also trigger higher Medicare premiums.

Pfau says that tax-aware decumulation in retirement is actually more complicated than accumulation, and points to the new Retirement Income Certified Professional designation now being offered at the American College. (p. 18)

**“The Evolving Landscape”**

by Jeff Berman and Janet Levaux

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=30#pg30>

Relevance: high

This is an interview with Mindy and Louis Diamond of Diamond Consultants, who say that advisors today choose broker-dealers, not on the basis of the deal they’re offering (so 2000s); instead, they are now seeking freedom, flexibility and control. Wirehouse brokers are leaving the brokerage system to “other models”—which may mean “super-regionals like Raymond James or RBC which are smaller and more advisor-friendly than the wires. For many of them, going totally fee-only and independent is a bridge too far; they want a fully-built infrastructure wherever they go. The 2007-8 crisis represented a shift; before that, brokers most often moved from one wirehouse to another. Through the Great Recession, they began to realize that the tarnished reputations of the big brands could work to their detriment, which allowed regional firms to pick up market share. The Diamonds also mention Hightower Advisors as an attractive place for brokers to land.

They say the pandemic and the work-from-home initiative drove advisor movement; we are told once again that brokers don’t like the amount of bureaucracy at their firm, but many of them only really reflected on it when they were working from home. It also gave them the privacy to do their due diligence on a landing place in a way that they didn’t before. And they realized they were not as reliant on their branch manager or the infrastructure and support of the branch as they thought they were.

Brokerage firms are still throwing 300% production bonuses at top teams, and putting more money upfront than they ever did before. And they are reimbursing for all or part of these recruited teams’ unvested deferred compensation, which is apparently a new development. Alternatively, if brokers want to go quasi-independent at, say, Sanctuary Wealth Partners, they can get 50% of the deal in cash and the other 50% in equity.

The Diamonds say that if the brokerage firms want to stay competitive, they will have to stop allowing compliance to run the firm. Brokers are limited in terms of their ability to self brand and what they can say on social media. The technology is based on what is most profitable for the firm. The Diamonds do not believe that brokerage firms are in danger of modernizing and adapting; even if they lose a few top advisory teams each year, they still have substantial businesses. Meanwhile, the independent BDs like LPL and Commonwealth are creating a more supportive offer to ex-brokers, allowing them to be independent, but within a large firm structure. Similar offers are being made by Sanctuary Wealth Partners, Rockefeller, First Republic, Snowden Lane, Dynasty Financial Partners, Hightower and Focus. They’re all creating an ecosystem of turnkey business support that is focused on the breakaway brokerage teams.

We are told that there will always be a place for wirehouse firms, no matter how many people leave their systems, because so many brokers thrive in that model. (p. 28)

**“It’s All Hands on Deck as BDs Enter Rougher Waters”**

by Jon Henschen

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=36#pg36>

Relevance: high

A sidebar to the cover article says that broker-dealers are finding Regulation Best Interest to be a difficult balancing act, where they have to create disclosures and improve their record keeping. We are told that regulators now view commission-based products (like annuities) as not in the best interests of the customer, and therefore outside the boundaries of a Reg BI recommendation. The rise of ETFs has disrupted mutual fund sales, which have substantially higher revenue-sharing arrangements than ETFs. (But… They’re not supposed to have shelf space arrangements at all, right?)

Also: advisors can cut costs by eliminating the BD’s 30 basis point administration fees and ticket charges, and custody client assets at Schwab or Fidelity and have no ticket charges on ETFs and stocks—for a 95% savings. While the wirehouses are leaking reps to the independent and regional BDs, the independent and regional BDs are leaking reps to fee-only independence. (p. 34)

**“What Are the 4 Key Drivers of Advisory Firm Growth?”**

by Angie Herbers

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=38#pg40>

Relevance: high

You’ve set a goal to increase your firm’s valuation, revenue and/or profits. But how do you get there? Herbers says you need to focus on the drivers of these growth metrics. Spend some time increasing the firm’s referral rate, its advisor capacity, the close rates and the lead flow. The column takes them one at a time.

To raise the client referral rate, you need to improve your client experience. Add communications that bring benefit to their lives, and educate your clients on your client experience process. You are training the client to understand who you serve and how, so they can paint a picture for their friends and neighbors.

You increase advisor capacity by developing one cohesive service model within the organization, where every advisor operates the same way. You have to take time to train the advisors in your processes—and (the article doesn’t say this) create processes that will deliver a consistent client experience.

You increase your close rate, or speed up your close rate, by giving your advisors sales training.

You increase lead flow by providing marketing training for your advisors. (p. 39)

**“Top 9 Retirement changes in ‘Secure 2.0’ Bill That’s Headed to House”**

by Melanie Waddell, Janet Levaux and Ginger Szala

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=44#pg44>

Relevance: high

The bill raises the RMD age from 72 to, eventually, 75. It allows hardship withdrawals from IRAs in cases of domestic abuse. It expands auto-enrollment by requiring 401(k) and 403(b) plans to offer to automatically enroll participants when they become eligible, initially with at least 3% of their income but no more than 10%. The limit on IRA contributions is increased by $1,000 for individuals above age 50. New catchup provisions allow $10,000 contributions for people who are age 62, 63 and 64—indexed to inflation. ($5,000 for SIMPLE plans).

The bill would allow employers to make matching contributions under a 401(k), 403(b) or SIMPLE plan for qualified student loan payments—helping employees with crushing student loan debt who might not otherwise be able to save for retirement. And it permits 403(b) plans to participate in multiple employer plan arrangements. (p. 42)

**“How will the Pandemic Change Regulation?”**

by Tom Giachetti

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=50#pg50>

Relevance: high

Giachetti says that the regulators did not miss a beat during the pandemic, and learned that they can adapt to remote oversight. The regulators are now conducting thorough examinations remotely, and they have been more efficient than they were in in-person inspections. Giachetti suggests that they may also be (finally) focusing on something other than fussy foot-faults, like if the money is where it is supposed to be, and firms are providing services consistent with their ADV.

But soon the regulators will have to figure out new challenges. Will or should employees continue to work remotely? How will they be trained when everybody is remote? Giachetti plans to revisit some of these issues a year from now; for now, he is resuming his once-hectic travel schedule. (p. 48)

The rest of the articles:

**“SEC’s Peirce Pushes for More Accredited Investor Rule Changes”**

by Melanie Waddell

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=12#pg12>

Relevance: moderate

Hester Peirce, a Republican SEC commissioner, wants more people to qualify as accredited investors—and her agenda has, in the past, directly conflicted with whatever the fiduciary culture of advisors might want, and aligned pretty directly with Wall Street—so you have to wonder if Wall Street firms want to sell unregistered securities to a wider consumer base. Meanwhile, we are told that SEC chairperson Gary Gensler worries that small entrepreneurs don’t have ready access to capital. Allison Herren Lee, a Democratic SEC commissioner, thinks the SEC ought to assess the effects of its rulemaking, and see where there are unintended disparate impacts. Also: FINRA’s Regulatory Notice 21-17 asks broker-dealers for feedback on how its rules or market practices could create unintended barriers in the BD industry to people based on national origin, language, age, gender, race or ethnicity, socioeconomic status, disability, gender identity and sexual orientation, family structure or veteran status. (p. 10)

**“Market for Ultra-Short Active Bond ETFs Grows”**

by Bernice Napach

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=16#pg16>

Relevance: moderate

Vanguard introduced an active bond ETF in the ultra-short sector of the market, and now BNY Mellon has filed an application to come out with a similar product of its own. The funds are alternatives to money market instruments. The total market currently includes $98.5 billion in ultra-short bond ETFs and $246 billion in mutual fund counterparts.

Meanwhile, Alpha Architect has filed an SEC application to launch an ETF that invests in companies associated with the mining of cryptocurrencies. (p. 14)

**“Evergreen Funds Offer Institutional Access to Individual Investors”**

by Drew Schardt

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=18#pg18>

Relevance: low

The article basically says that high minimums and lack of liquidity have prevented advisors from using private market investments, but now some private market managers are creating lower-minimum “evergreen” funds which also permit monthly or quarterly redemptions. And the returns are reported on a 1099 rather than a K-1, which makes them more convenient for lay investors. But… I think the reader should have been told that the author of this article is the head of direct credit investments at a firm that is offering these “evergreen” strategies to the advisor marketplace. (p. 17)

**“Buffett’s Investments: The ‘Great,’ the ‘Good’ and the ‘Gruesome’”**

by Jane Wollman Russoff

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=22#pg22>

Relevance: low

I’m curious to know how the editors of Investment Advisor magazine think any of this is relevant to their financial planning audience. But… This is an interview with Adam Mead, who wrote a 766 page book about Berkshire Hathaway. Buffett acknowledges that selling $7.4 billion of Apple stock wasn’t his best move. Mead says that the investment in Dexter Shoe Company and Berkshire’s dying textile business were gruesome mistakes. Buffalo News was a great company at one time, but now the newspaper business is decimated by internet competition, and Buffett sold all his newspaper holdings. Berkshire finally sold Wells Fargo after repeated scandals, and shifted to Bank of America. Mead says that Buffett prefers to invest in companies that throw off cash, which can be redeployed—since Berkshire doesn’t pay dividends. (p. 20)

**“5 Top Sales Insights From Robert Cialdini”**

by Mark Elzweig and Melanie Waddell

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=24#pg24>

Relevance: low

These are quotations taken from *The Psychology of Persuasion* and *Pre-Suasion: A Revolutionary Way to Influence and Persuade,* and chances are it is going to make you want to throw up—unless you’re a broker, in which case this is neat-o keen sales advice. Cialdini says that before you offer the logical arguments for what you want to sell to the customer, soften up your audience with an emotional message. The key, we are told, is to plant a message in prospects’ minds that prepares them for your offering—before you move in for the close.

Before you go into that prospect meeting, take a few minutes to focus your thoughts on the goals you want to achieve. The number one rule for top salespeople, we are told, is to establish instant trust with prospects. Show clients and prospects that you genuinely like them. Offer small gifts, which, the article says, “can generate big results.” Give prospects a small present before you ask them to do something “that can pay off.” They will want to reciprocate.

Oooh! Oooh! Here’s a good one! If you want to persuade someone to do something, you can greatly enhance your chances of success by asking for something really big first. They’ll say no, but they’ll feel slightly uncomfortable about it, which means they are “now primed to say yes to your smaller request.” They won’t want to say no to you twice in a row, and the second request will seem more reasonable. Sell those annuities!

A sidebar (presumably this part was written by Waddell) says that SEC chair Gary Gensler, in a House Financial Services Committee meeting, was asked whether he planned to make any amendments to Reg BI. Gensler sounds a little naive here: he says “I think that it’s important that investors actually have brokers take their best interests at heart, and that’s what we’re going to do through examination and enforcement and guidance.” He is open to “freshening” the rule. The SEC is also looking at gamification—specifically whether Robinhood and Reddit users are appropriately protected when they’re lured into trading. (p. 22)

**“Samantha Russell: Don’t Become the Next Blockbuster”**

by Jeff Berman

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=26#pg26>

Relevance: moderate

The founder of a social media marketing firm says advisors aren’t doing enough marketing on social media to attract millennials, and they need to be open to changing their fee models. Advisory firms need to demonstrate value. Don’t build for the future by focusing on what’s worked in the past. Offer data on digital assets like Bitcoin. Make use of video and you’ll stand out, because most advisory firms do not have an active YouTube channel. (p. 24)

**“In a Year Like No Other, Active Managers Stayed Agile”**

by Ginger Szala

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=28#pg28>

Relevance: low

This is a list of the finalists for the 2021 Asset Manager and Strategist of the Year, where the magazine relies on Envestnet analysts to tell them who to consider. You can click on the link to see the list, but it’s actively-managed funds who may be on a hot streak, with some SMAs thrown into the mix. You aren’t going to invest client assets based on this list, are you? (p. 26)

**“Reactions From the Front to Secure 2.0”**

by Melanie Waddell

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=38#pg38>

Relevance: low

The House Ways & Means Committee has passed out the Securing a Strong Retirement Act of 2021, dubbed the Secure Act 2.0. It increases the RMD age in step-stages from 72 to 75, ending the process in January 2032. Advisors debate on whether this one provision is good or bad, ignoring all the other provisions in the bill. (p. 37)

**“Secure Act 2.0: A Gateway to ‘Rothification’ of Retirement?”**

by [Staff]

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=44#pg44>

Relevance: moderate

An advisor points out that, as the bill stands now, those making catch-up contributions to retirement plans (who must be 50 and over) would be forced to make them as taxable contributions—what the advisor says is ‘Rothification’ of America’s retirement system. He says that the catchup provisions are generally made by those who have already put in the maximum tax-deferred contribution. (p. 43)

**“Milevsky: Advisors Should Charge More for Retirement Spending Advice”**

by [Staff]

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=46#pg46>

Relevance: low

Moshe Milevsky has always been a strong advocate of buying immediate annuities for clients in retirement. But here he says that decumulation is more complicated than retirement planning, and advisors should charge more for advice from clients who are taking money out of their portfolios during their retirement years. But presumably not if the income is annuitized and coming out as steady checks.

The article says that knowing when to retire is complex and even more complex is managing the process of figuring out which accounts to take income out of each year in the most tax-efficient manner. (p. 44)

**“How Advisors Can Help Clients Understand Increasing P&C Insurance Rates”**

by Fran O’Brien

***Investment Advisor,*** June 2021

<https://www.investmentadvisordigital.com/investmentadvisor/june_2021?pg=48#pg48>

Relevance: low

The composite rate for personal lines insurance rose 6.3% in 2020. Properties worth more than $1 million saw rate increases of 8.2%. Part of this is indirectly related to the pandemic, some of it relates to the increases in the price of source materials. Natural disasters are becoming more frequent and severe. (p. 46)