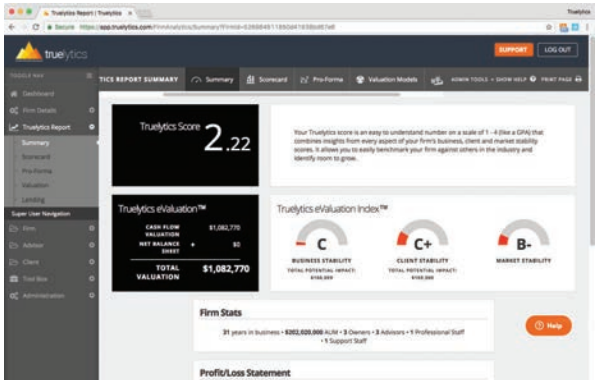
FINANCIAL SERVICES INSTITUTE
VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS AND INDEPENDENT FINANCIAL ADVISORS

FSI VOICE

FOR MEMBERS OF THE FINANCIAL SERVICES INSTITUTE



TRUELYTICS PARTNERSHIP

New online practice valuation and business intelligence tool announced

When it comes to optimizing the sale valuation of an independent advisor's practice, Truelytics Managing Director Kevin Connor says that, based on his experience, advisors generally belong to one of two groups—and where they fall between the two can have profound consequences for the results of any transaction.

"There are those advisors who treat their business as just a practice, and those who look at it as a true business—who think like a CEO," says Connor.

Advisors who take the CEO approach—who keep one eye firmly on building the transferrable value of the business at the same time that they work to provide world-class service to their clients—can generally look forward to a successful sale process, he says.

Advisors who do not, on the other hand, risk leaving significant value on the table when it comes time to exit the business.

With this in mind, FSI was proud to announce earlier this month that we have partnered with Truelytics, the only online self-service business intelligence platform that gives financial advisors the ability to truly understand and drive the value of their practices.

We are pleased to offer our members access to Truelytics' cutting-edge tools through our highly successful *CoveredAdvisor* program, which now provides insurance and affinity benefits to over 5,000 of our members.

continued on page 3

NEW FSI BOARD MEMBERS

In July, FSI was extremely pleased to welcome three highly experienced, talented industry professionals to our Board: Lincoln Investment Companies President and Chief Executive Officer Ed Forst, Signator Investors President Christopher Maryanopolis, and First Command Financial Services Chairman and Chief Executive Officer Scott Spiker.

continued on page 4

TRUELYTICS *continued from page 1*

Strengthening Members' Businesses—And Negotiating Leverage

The Truelytics business intelligence platform assesses the strength of an advisor's business based on a number of straightforward inputs (provided by the advisor), including revenue, product mix, operating expenses, information on clients and employees and other data. The tool uses this information to develop a highly-accurate discounted cash flow valuation of the business, while providing a clear readout of the assumptions used in the calculation.

It also provides an easy-to-understand score for three crucial areas of an advisor's practice—business stability, client stability and market stability—along with concrete steps to help advisors further strengthen their scores in each segment.

The tool offers FSI members an array of crucial benefits to help them plan ahead for a successful sale, whether it's driven by the founding advisor's own retirement plans or undertaken on an opportunistic basis:

- **Take the guesswork out of determining market value.** The Truelytics tool enables advisors to gain a clear picture of their businesses' value in minutes, based on clearly-identified assumptions. It also provides a view of valuation using several different methodologies.
- **Harness the power of the industry's top consultants,** packaged into technology that members can easily utilize daily to build their practices' profitability and ultimately strengthen their negotiating position when they sell the business.
- **Gain deep data-driven insight.** Truelytics enables advisors to easily identify areas of opportunity and benchmark their results against industry peers. Moreover, it allows advisors to see the dollar impact on valuation of concrete changes in the business—for example, how much more they could realize in a sale by implementing a continuity plan or establishing non-compete agreements with employee advisors.
- **Save money while bypassing the need for expensive consultants** with 20% off the annual rate for Truelytics available to all FSI financial advisor members. (FSI members pay only $850 instead of the regular $1,075 annual rate, saving $225 per year—well more than the $179 annual FSI individual member dues.)

  Plus, FSI firm members and OSJs who wish to accelerate their business growth by making data-driven decisions at scale, will have access to enterprise pricing options that include executive dashboards and benchmarking for all of their advisors.

Responding to Our Members' Needs

The new partnership was driven by the members of our Marketing, Growth and Development Council, who have emphasized to us that accurately determining and tracking fair market value is essential for the owners of all financial planning and wealth management firms, even if they have no immediate plans to sell.

The benefits of this partnership extend to our Firm Members, as well. The Truelytics tool provides firms with access to the aggregate data their advisors input into the tool, giving them a powerful resource for driving practice management consulting discussions and helping to improve the strength of entire advisor communities.

We are pleased to say that the partnership has been incredibly well received by many of our Firm Members who are already deep into the process of bringing it to their advisors.

Serving Long-Term Priorities

The Truelytics partnership also ties into FSI's longstanding goal of helping our members prepare for implementation of the Department of Labor's fiduciary rule. We encourage our members—whether they are looking to sell their practices, acquire other practices, or simply improve and grow their practices—to put Truelytics in place before the rule goes into effect, both to help them prepare and to quantify the impact of the rule on their businesses.

As FSI President and CEO Dale Brown summarized, "While our top member benefit always will be advocacy, occasionally an outstanding opportunity such as *CoveredAdvisor* arises that is so beneficial to our members that we cannot let it pass by. Truelytics is clearly one of those opportunities."

For additional information on this exciting partnership and to see how Truelytics can help your business, please visit **http://info.truelytics.com/fsi**.

BOARD MEMBER *continued from page 1*

We spoke with each of our new Board members to get their perspective on their goals during their terms, and to hear their thoughts on the importance of FSI's role going forward.

"I've always felt we're in a helping profession."

Spreading the Word about Independent Advisors—A 'Helping Profession'

Ed Forst has been in the industry for about 36 years—all with Lincoln Investment, a Pennsylvania-based broker-dealer with over 1,100 advisors and more than 300 operations and support personnel that his father founded almost 50 years ago.

Looking back on his early days running the firm in the mid-1990s, a colleague suggested to Ed that, in order to be a more effective leader for the firm, he needed to get to know others in the business. "It was around this time that I first met Dale Brown, when he was running one of FSI's predecessor organizations. I began attending meetings and I was a sponge, learning all I possibly could. The interactions I had changed my attitude and absolutely made me a better leader for our business."

Approximately 25 years later, Ed says he's now excited about being involved once again with FSI—in what he calls 'round two' at this point in his career. "I see serving on the Board as a way of giving back to the organization because it's done so much for me over the years."

As a new Board member, Ed's initial focus will be on helping to maintain constructive dialogue between the industry and regulators. In addition, he said, he hopes to do what he can to educate regulators and the public on the crucial role independent advisors play in the lives of their clients and communities. "From my very first days helping teachers with their retirement needs through the sale of 403b plans, I've always felt we're in a helping profession. While the reputation of the advisory business clearly has improved, there's still a little too much misconception about what we do. I am keen to work with the Board to do all we can in this area."

Ed also hopes to use his experience to provide a voice for mid-sized firms who fall between the well-known giants and the much smaller firms.

"What we do in our business is such a great career and calling."

Safeguarding the Future of the Industry

Chris Maryanopolis has over 30 years of experience in the financial services industry and has served in a broad array of senior-level positions with several diversified financial firms. His experience includes time in client services, cost containment, marketing and sales, among others. Chris joined John Hancock Financial Network in May 2007 and currently serves as President of its broker-dealer and registered investment adviser, Signator Investors, which is based in Boston and has more than 2,000 advisors across the country.

As a longtime FSI member and former member of our Operations Council, Chris is excited to take on a greater role in speaking directly with regulators as a member of our Board. "I'm looking forward to working with my fellow Board members in establishing a meaningful dialogue with the regulators. I'm a big believer in regulation, which is important for all industries. Striking the right balance, between protecting consumers and enacting effective industry regulation, especially with the DOL Conflict of Interest (or 'Fiduciary') Rule, is critical," he says.

Chris also said organizations like FSI have the opportunity to protect the future of the advice industry. As our members know, firms and advisors face serious challenges on several fronts today, including the regulatory environment and well-known demographic factors such as the aging of the advisor population.

"What we do in our business is such a great career and calling. We need to continue getting that message out there for everybody, particularly for young people starting out in a financial services career," he says. "People will always need professional financial advice, but we as an industry need to make sure we do all we can to uphold this great profession as a meaningful career destination."

Representing Industry Concerns on Capitol Hill and the FSI Board

Scott Spiker brings more than 30 years of diverse leadership experience to the financial industry. He launched his professional career as a commissioned officer in the U.S. Navy, where he served as navigator aboard a frigate in the Indian Ocean. He later moved on to hold senior executive roles in the investment, insurance and banking industries. Scott joined First Command Financial Services, which provides financial coaching to U.S. career military families, in 2007, becoming the first Chief Executive Officer recruited from outside the company.

He became an FSI member shortly afterward. "Over the past 10 years, I've always been a very strong supporter of FSI. I have found FSI to be by far the best Washington-facing organization representing the interests of our company." He noted that several senior leaders at First Command have been active over the years on a number of FSI committees, as well.

Scott brings to the Board a track record of not only career success, but a history of active advocacy at the state and federal levels. In recent years, he has been a regular presence on Capitol Hill, meeting with lawmakers on a variety of key legislative and regulatory issues including the effect of the DOL fiduciary rule and Dodd-Frank. "I've long tried to make our point of view well known that the regulatory burden is enormous and often, frankly, unnecessary."

"I have found FSI to be by far the best Washington-facing organization representing the interests of our company… I'm eager to help FSI carry this torch."

As a Board member, Scott hopes to contribute toward a better public perception of the retail advisory industry. "In the past, we have not done a good enough job demonstrating the importance of what we do for Americans. As a result, some previous administrations have been able to attack financial services. I'm eager to help FSI carry this torch."

"We are continuing to approach the problem [of the DOL fiduciary rule] through constructive, reasoned—yet forceful—dialogue with lawmakers and regulators."

LETTER TO MEMBERS

After years of sounding the alarm over the Department of Labor (DOL) fiduciary rule and its potentially devastating impacts on Main Street American investors and our industry, we are seeing in real time that our predictions were right all along.

Since the rule began to take effect in June, its burdensome new costs and threats of severe legal liability have started to alter the economics of our industry. Some advisors are finding that they can no longer serve many smaller retirement investors—even longstanding clients who may have been with them for years—on an economically viable basis.

Firms across the country—already facing implementation costs far in excess of the DOL's flawed projections—are eliminating many funds, fund families and even entire product categories in an effort to not only comply with the rule, but to pre-emptively protect themselves from the wave of class action lawsuits that could be triggered when and if the rule takes effect as currently written.

The net effects of this radical shift in the regulatory landscape: smaller investors frozen out of the personal financial guidance they sorely need in order to prepare for retirement; advisors hamstrung in their efforts to develop properly diversified portfolios that meet their clients' needs due to constraints in product choice; other advisors considering early retirement rather than fundamentally restructuring their practices; and an industry burdened by sharply higher regulatory costs and the omnipresent threat of class action lawsuits.

This is one instance, unfortunately, in which we take no satisfaction in being right. Telling legislators and regulators 'we told you so' won't help firms and advisors continue to build their businesses or help their clients achieve their long-term financial goals.

Instead, we are continuing to approach the problem through constructive, reasoned—yet forceful—dialogue with lawmakers and regulators.

In his testimony on our behalf to the House Financial Services subcommittee on Capital Markets, Securities and Investment in July, 1st Global President and FSI Board member David Knoch explained to lawmakers in no uncertain terms how clients of his own firm's advisors have already seen their ability to cost-effectively manage investments cut back, while some of the firm's advisors are scaling back their client lists to maintain profitability.

The latest study we commissioned from Oxford Economics echoes these points, making a clear case that clients' ability to construct portfolios tailored to their needs has been impaired due to sweeping cuts in product choices, while the costs of complying with the DOL rule far exceed initial estimates and promising market-driven solutions are hampered by the rule's implementation timeline.

The good news is that the fight is far from over. The DOL has proposed an 18-month delay in the rule's timeline for full implementation and is considering changes in the rule based on industry feedback. Legislative proposals from Rep. Ann Wagner (R, Mo) and others could repeal or substantially alter the rule.

Despite the dire predictions that have started to come true about the DOL rule's impacts on our industry, FSI is not backing down. Rather, we are using the emerging information about the rule's effects to drive constructive, data-driven dialogue with concerned legislators and regulators to drive a better outcome for our members and their clients.

We look forward to continuing to update you on our progress.

Dale E. Brown
President and CEO
Financial Services Institute

These gatherings…give members the opportunity to meet with their elected representatives in an intimate setting and discuss issues that have a direct impact on their businesses.

OVERVIEW OF STATE ADVOCACY EFFORTS
2017 STATE CAPITOL DAYS

Since FSI's inception, we have enjoyed a successful track record of fostering constructive relationships with lawmakers and other key decision-makers at the federal level who craft policies that influence our industry—and, thus, the ability of millions of Main Street Americans to save for a dignified retirement. One of FSI's biggest advocacy priorities in recent years has been to replicate this success in the states to benefit our members.

Thanks to our FSI state legislative affairs team and events like our State Capitol Hill Days, we are successfully building state-level dialogue with regulators and lawmakers across the country. Last year, we held four such days and followed that up this year with events in New York and Texas. These gatherings, modeled after our annual Capitol Hill Day in Washington, D.C., give members the opportunity to meet with their elected representatives in an intimate setting and discuss issues that have a direct impact on their businesses, as well as the broader independent financial services industry.

In New York, we met individually with lawmakers sponsoring bills related to state-run retirement plans, fiduciary status disclosures and elder financial abuse, as well as robo advice. Meanwhile, our Texas State Capitol Hill Day in Austin was especially productive, coming just before the state legislature filed bills in an effort to prevent elder financial abuse. During our visit, FSI members directly engaged lawmakers about the need to allow advisors to report instances of suspected elder financial exploitation that would not result in potentially burdensome legislation.

continued on page 9

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OVERVIEW *continued from page 7*

Aside from those signature events, FSI's state legislative affairs team has been working diligently throughout the year to tackle individual issues that are important to our members across all 50 states. Below are some of the highlights of what they have achieved thus far in 2017:

- We helped defeat an Illinois bill that would have imposed a 20% professional privilege tax on partnerships and corporations that offer investment management services, despite the fact that such entities are already subject to franchise and excise taxes.
- A bill in Connecticut that would have imposed a 19% surcharge on income derived from investment management services stalled in committee. After the bill was proposed, we worked closely with the Connecticut Business & Industry Association to draft a co-signed letter outlining our objections.
- In Louisiana, FSI played a key role in fending off a financial transaction tax bill. We wrote letters of opposition to the bill's sponsor and members of the committee considering the legislation. The bill failed in committee.
- A Minnesota bill that would have compelled private sector employers to enroll in a state-run retirement plan was never voted upon, as originally scheduled. The reversal was in large part due to FSI's efforts, which included contacting bill sponsors and other relevant committee members to relay our concerns about the proposal.
- We rallied support and backed measures in multiple states—including Utah, Oklahoma, Arkansas and North Carolina—that boosted financial literacy programs in public schools.
- We supported a New York effort to establish minimum cybersecurity requirements for regulated entities in the state that recognized that financial services firms need a greater level of flexibility when it comes to cybersecurity policies and procedures due to variations in firm sizes.

"We are successfully building state-level dialogue with regulators and lawmakers across the country."

FSI will never take our eyes off the ball at the federal level. We need only to look at the profound impact of the Department of Labor's fiduciary rule on our industry, and on investors across the country, to appreciate the importance of maintaining our focus on national regulatory and legislative matters.

State activity, however, has become more frenzied. And while there are some areas in which we are able to find consensus with state regulators and lawmakers (such as boosting financial literacy levels and beating back elder financial abuse), there are others where we have meaningful disagreements (including the formation of state-run retirement plans). Either way, FSI—and our members via events like State Capitol Hill Days—will continue to engage at the state level in order to ensure that we have a voice when important issues are discussed in statehouses and elsewhere across the country.

> **"We [FSI] are fully engaged in ongoing dialogue with the Department of Labor, which is making strides toward reviewing and potentially altering the rule."**

FSI TESTIMONY ON DOL RULE

With the DOL fiduciary rule beginning to take effect earlier this year, it is becoming more clear each day that the warnings we and our members have raised about the rule's dangers for Main Street American investors are rapidly coming true. Fortunately, some members of Congress are continuing to oppose this rule, while working to define a uniform fiduciary standard that makes sense for investors and the industry.

FSI was pleased to be invited to testify before the House Financial Services subcommittee on Capital Markets, Securities and Investment in July to voice our full support of a draft bill by Representative Ann Wagner (R-Mo.) that would replace the DOL rule with a vastly more workable uniform standard of care, enforced by the SEC as the appropriate jurisdictional agency. The bill would also provide for streamlined disclosures in order to communicate possible conflicts of interest.

1st Global President and FSI Board Member David Knoch, who will serve as our Vice Chair in 2018, spoke on FSI's behalf before the subcommittee. As Mr. Knoch made clear in his testimony, the rule has already begun to hurt smaller investors across the

> **"Smaller investors are already feeling the negative impacts of this destructive and costly new regulation country."**

The rule has, for example, already made it more difficult for independent firms to support direct business between investors and mutual fund companies. Direct business, in which a client's mutual fund investments are custodied with the fund company itself, is typically the least expensive way for clients to hold mutual funds, and is commonly used by Main Street investors.

Since many of these investments would force advisors to rely on the DOL rule's onerous and plaintiff attorney-friendly best interest contract exemption

> **"FSI will pursue every available avenue in our ongoing efforts to oppose the DOL's harmful and onerous fiduciary rule."**

(BICE), however, many advisors have begun to move these clients' accounts onto their broker-dealers' own level-fee platforms, where net expenses for the clients are frequently higher.

1st Global has already seen a 10% decline in the number of client accounts held directly with mutual fund companies, and expects the total number of direct client accounts to drop 35% year-over-year, by the end of 2017.

The company is also encountering difficulties in supporting small business retirement plans under the DOL rule. Many of its affiliated advisors have ceased to offer SIMPLE IRAs—a crucial retirement savings tool for many startups and other small businesses across the country—as 1st Global and other firms have been challenged to serve these accounts on an economically viable basis under the new rule's requirements.

Clearly, smaller investors are already feeling the negative impacts of this destructive and costly new regulation—and many of our members believe it will only get worse from here.

In addition to supporting Rep. Wagner's bill and other legislation that would repeal the fiduciary rule, we are fully engaged in ongoing dialogue with the Department of Labor, which, under new Secretary Alexander Acosta, is making strides toward reviewing and potentially altering the rule.

We have submitted a comment letter to the department as part of its current Request for Information (RFI) on potential revisions to the rule, and we are also encouraging it to extend the RFI's deadline to allow more of the concerned members of our industry to weigh in.

Most immediately, we have urged the DOL to delay full implementation of the rule until April 10, 2019. A delay alone, however, will not be enough. FSI has consistently and forcefully argued—even prior to Dodd-Frank—in favor of a uniform fiduciary standard of care across the financial services industry. We continue to call for such a standard to be developed and overseen by the SEC today.

If this outcome should fail to be achieved, we would recommend discontinuing further implementation of the DOL rule. At the very least, we recommend that the Department adopt the following measures:

1. Streamline BICE documentation and disclosure;
2. Create a single best interest standard applicable to all investors;
3. Revise and broaden the reasonable compensation rules;
4. Revise the rules for IRA rollovers; and
5. Expand the rule's grandfathering provisions.

As we have long stated, FSI will pursue every available avenue in our ongoing efforts to oppose the DOL's harmful and onerous fiduciary rule. We continue to work with legislators and the Department itself to deliver on that pledge.

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TAKEAWAYS FROM WORLD ELDER ABUSE AWARENESS DAY

Earlier this summer, FSI was proud to partner with the National Adult Protective Services Association (NAPSA) to sponsor a breakfast before the 3rd Global Summit on World Elder Abuse Awareness. The Summit was held under the banner of "Empowering People at Every Level: Every Age, Every Stage" on June 15, marking the 12th anniversary of the first World Elder Abuse Awareness Day in 2006.

A strong contingent of FSI staff attended the event, along with an impressive list of participants that included elder abuse prevention experts from around the world, influential academics, national policy makers, prominent financial services industry executives and leaders from various social services organizations. Sen. Richard Blumenthal (D-Conn) spoke during the keynote session, touching on a broad range of topics, including an in-depth look at the legislation he co-sponsored with Sen. Charles Grassley (R-Iowa) that would stiffen penalties for fraud and other forms of elder financial abuse.

"For years, [FSI has] worked to… educate lawmakers about the importance of enacting legislation that results in enhanced protections for elderly investors."

Commenting on FSI's participation in the Summit, FSI President and CEO Dale Brown said, "FSI was proud to come together with NAPSA for the 3rd Global Summit on World Elder Abuse Awareness, and we thank them for allowing us to play a small role in putting on this important event. We look forward to continuing our work in this area and to leveraging the collective voice of our member firms and independent financial advisor members to protect our nation's most vulnerable citizens."

The event was just the latest example of FSI taking an active role in combating elder financial abuse. For years, we have worked to raise the industry's consciousness on this issue, as well as to educate lawmakers about the importance of enacting legislation that results in enhanced protections for elderly investors and stronger protocols for financial firms.

In 2014, we launched our Elder Abuse Resource Center (**www.financialservices.org/elderabuse**), a centralized collection of support tools intended to help our members better identify possible instances of elder financial abuse, including common red flags, a list of federal and state resources, and relevant news articles. The resource center also represents a one-stop point of reference for advisors in all 50 states to find the appropriate agencies and organizations to report suspected abuse.

FSI is proud of the work our members have done to combat this problem, and of the constructive steps we have taken in conjunction with regulators and legislators on this issue. At the same time, however, we understand that this is just the beginning—with the Baby Boomer generation retiring and getting older with each passing day, there is still much more that can be done to increase investor protections and prevent elder financial abuse. We look forward to continuing to work with our members to make further progress toward this vital goal.

RETHINKING RISK THROUGH AN OBJECTIVE-BASED LENS

By Sunder R. Ramkumar and P. Brett Hammond

The trend toward objective-based investing, and the return of client goals to a central focus in portfolio construction, seems like an obvious concept. But putting real-life client goals first—and using the goals as benchmarks rather than an index—represents a departure from the typical risk-tolerance framework.

Objective-based investing goes beyond the typical client risk profiles and strives for more nuanced assessments of risk that include not just a client's tolerance for volatility or loss, but the very real risks to their goals—saving enough for retirement or putting kids through college.

For too long, volatility was seen as the predominant risk in portfolio construction. To challenge this notion, we offer a simple example of risks in objective-based investment management. For many investors, volatility remains a risk—but for others, insufficient capital appreciation may be paramount. And outliving one's retirement savings is a risk the vast majority of investors may face.

These are long-term historical results for three indexes: a large-cap index often used to represent "the market," a small-cap index, and a dividend-payers index all measured over the period from 1976 to 2016.[1]

Risk is traditionally measured as annualized volatility, or the annualized standard deviation of monthly returns. In this example, Ibbotson Small Cap stocks had the highest annualized volatility and so might be considered most risky for investors whose goals are particularly sensitive to volatility.

"Different equities pose different risks for different objectives—not a new concept, but one that objective-based investment management helps to navigate."

Now, consider a worker seeking to invest $100,000 toward retirement in 20 years. With fears of insufficient retirement funds firmly in mind, the need for capital appreciation would trump concerns over volatility. In the center chart in the exhibit above, we calculated the average accumulated savings in the worst 5% of all rolling 20-year periods (from 1976 to 2016). This lens suggests that the small-cap investment was the least risky, as it returned approximately $581,000 over the least favorable 20-year periods. The dividend-payers index, in contrast, generated only $382,000, on average.

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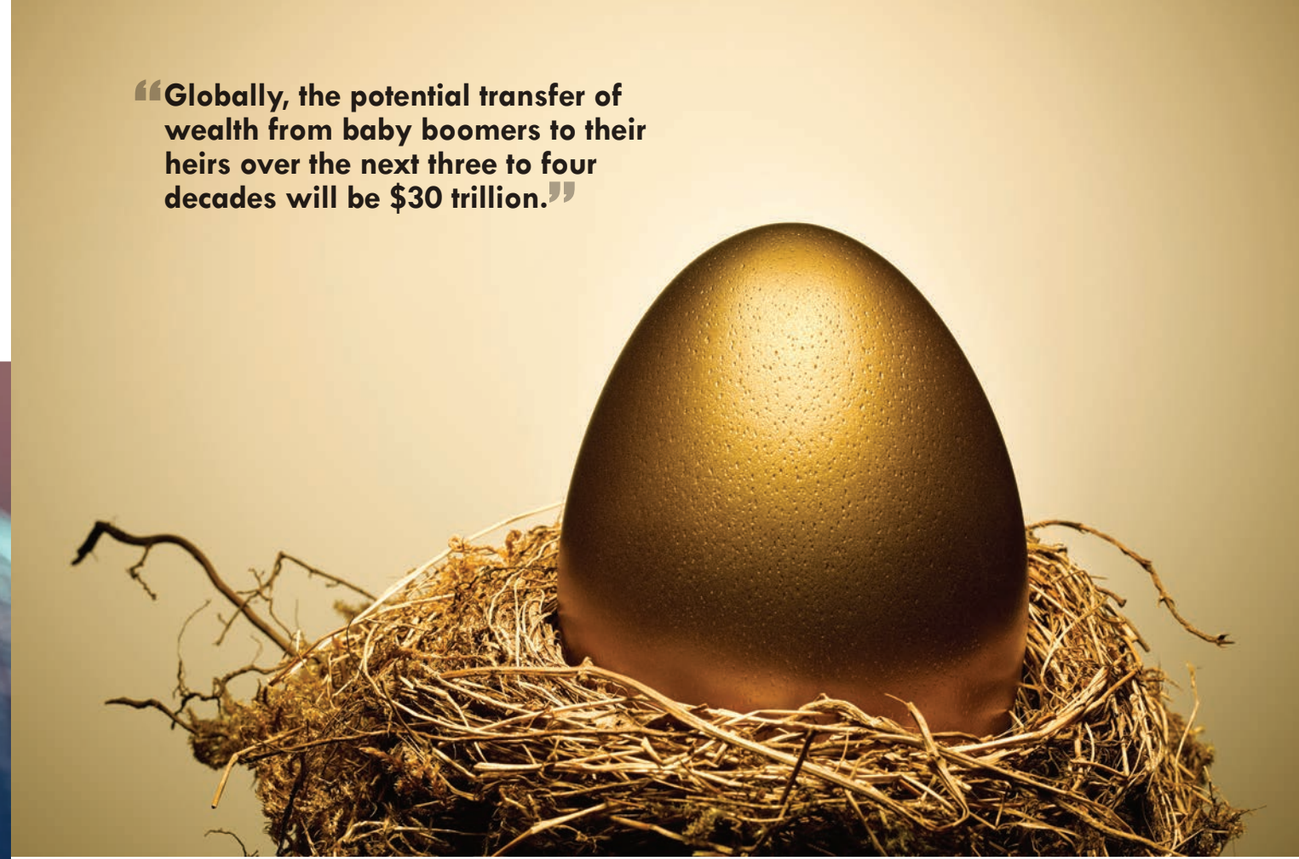

"Globally, the potential transfer of wealth from baby boomers to their heirs over the next three to four decades will be $30 trillion."

YOUR OPPORTUNITY WITH GENERATION NEXT AWAITS

Congratulations to financial advisors around the country. You have been invited to participate in the greatest transfer of wealth in history. But the window of opportunity is closing.

Globally, the potential transfer of wealth from baby boomers to their heirs over the next three to four decades will be $30 trillion. In the United States, 3.73 million high-net-worth individuals with over $1 million of investable assets will be transferring over $12.7 trillion to their heirs during this time period. This doesn't include the additional trillions of dollars the mass affluent will be transferring. A significant and sobering fact is that only 40% of current and potential baby boomer retirees use a financial advisor, and far fewer consider themselves loyal to their advisor.

Make It Happen

When it comes to marketing, there are three types of advisors: those who **make** it happen, those who **let** it happen, and those who **wonder** what happened. As a financial advisor, if your business and marketing goals don't include a comprehensive plan tuned to the "Great American Wealth Transfer," then you will be sitting on the sidelines **wondering** what happened.

Sadly, there are advisors whose marketing plan involves getting to the office early in the morning and waiting for the phone to ring. Those advisors will be left behind. The future belongs to the thoughtful advisors who understand the importance of maintaining meaningful relationships with their clients and their heirs. They will have processes, products, and services in place that will complement the goals and objectives of the giving and receiving end of the wealth transfer cycle.

It goes without saying that your very best clients will be your competitor's very best prospects.

continued on page 17

RETHINKING RISK *continued from page 13*

Finally, consider an older retiree seeking the greatest degree of sustainable spending over a 20-year period—what we call the downside withdrawal rate. Any higher withdrawal rate would result in a negative average account balance in the worst 5% of scenarios across rolling 20-year periods.2 For this investor, the dividend-payers index, at 8.1%, may be the safest option, since it would support a higher maximum withdrawal rate over these worst-case periods. The large-cap index would have been the least attractive investment for a retiree since the safest maximum withdrawal rate, 7.8%, was nearly a half a percent less per year than the dividend-payers option.

While conventional wisdom suggests that the broad, market-cap weighted portfolio is most diversified, it may not have the lowest risk for all investors. In other words, different equities pose different risks for different objectives—not a new concept, but one that objective-based investment management helps to navigate.

Implications

Our simple example highlights three practical implications of goals-based investing:

- Investors and their advisors should view risk not just as annual volatility, but instead as the likelihood of undershooting goals. It is not enough to evaluate a client's risk tolerance in the abstract. Instead, risk is inextricably linked to one's goals, time horizon and life stage.
- Just as investment risk varies with client goals, so too must the investment approach. Obviously, retired clients would have very different portfolios than ones still saving for retirement. But even in the above example, which used all-equity indexes, the types of equities mattered a great deal. Asset allocation may solve for this in part, but mutual fund objectives or individual security characteristics must be taken into account and aligned with client financial objectives whenever possible.
- Finally, our research suggests that there may be added value to funds that seek broader objectives such as capital appreciation or downside protection, rather than those linked to a market benchmark that may or may not truly reflect client needs. This requires rethinking the conventional distinctions between strategic asset allocation and security selection, but has the potential to materially improve client outcomes.

Applying these principles does not need to replace current portfolio construction processes. Many professionals already have their own screens for investment selection within portfolios. We feel the objective-based lens adds value to this process through a greater knowledge of client goals and a greater selectivity of potential investments based on the risks to those goals. This can offer the opportunity for better client engagement and, most importantly, the potential for improved investor outcomes.

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1 Note that indexes used in this table were selected for (1) their longevity and (2) purposes of illustrating differing characteristics among types of equities. Investors would be unlikely to choose a portfolio entirely composed of the stocks in one index. Moreover, active management can be used to limit risk and gain exposure to desired characteristics.

1 These "safe-max" withdrawal rates seem higher than the original research by William Bengen due to (1) a 20-year retirement horizon considered (2) the favorable market environment from 1976-2015 with double-digit average equity returns and (3) using an all-equity strategy for simplicity of presentation. In practice, the addition of bonds to the portfolio would lower overall returns and further reduce portfolio volatility.

GENERATION NEXT *continued from page 15*

More thought and effort than ever before will need to be dedicated to developing and nurturing personal relationships with clients and prospects. The key multiplier for client retention success will be maintaining meaningful contact with your clients and those who are still prospects. Simply stated, at least 12 to 18 annual contacts will help you succeed; six or less could dramatically impair your business.

> **"Establishing personal and meaningful relationships with all family members will be both fulfilling and rewarding in the months, years, and decades to come."**

From Accumulation to Distribution, Are Your Clients Ready?

Many financial advisors have helped their baby boomer clients through the accumulation phase in anticipation of a comfortable retirement and legacy for their children. Many baby boomers are now experiencing the use and enjoyment phase thanks to a disciplined financial management plan, and have gathered more wealth than they ever thought possible. The next phase will be distribution, passing their assets on to their heirs. For simplicity, let's refer to the heirs as Generation Next.

Generation Next includes, for the most part, Generation X, and Millennials. These heirs include baby boomer children and even grandchildren. They have a very different reality when it comes to cultural issues and agendas. Where their baby boomer parents were largely competitive, optimistic, and idealistic, Generation Next is largely diverse, independent, and skeptical.

The $30 Trillion Transfer Requires Leadership

The $30 trillion question each active financial advisor needs to ask is, "Do I want to provide my financial services for Generation Next?" If the answer is yes, then you need to make sure your relationships are based more on personal merits than performance. Generation Next needs to be considered a stakeholder in the financial planning process. Ignoring Generation Next will only create barriers to you continuing as their advisor.

If you are a financial advisor to baby boomers, you will need to help guide them through this transitional phase. You should consider having at least an annual joint meeting with parents and adult children to discuss planning objectives and accomplishments (within reason). An annual client event can build a sense of community and strengthen loyalty. Monthly newsletters—perhaps printed for the parents and electronic versions for the children—will keep your presence in front of them so you remain top of mind when decision time comes. And it should go without saying that your clients and their heirs will expect you to have a website filled with current, compelling, and credible content that will resonate with them.

Establishing personal and meaningful relationships with all family members will be both fulfilling and rewarding in the months, years, and decades to come.

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UPDATED OXFORD ECONOMICS STUDY

We and our members strongly believe that one of our most powerful tools in the ongoing effort to oppose the onerous Department of Labor (DOL) fiduciary rule is to ensure that regulators, lawmakers and the public hear detailed, quantitative information on the subject from as many voices as possible. After all, as they say in Washington, DC, "The plural of 'anecdote' is not 'data'."

We have worked extensively with Oxford Economics throughout this process to develop data-driven perspectives on the fiduciary rule to help inform the continuing debate. The latest Oxford Economics survey we commissioned—completed in July—shows clearly that drastic reductions in product choice for investors and skyrocketing costs are not simply happening at one or two firms. They are happening across the entire industry—and they are happening today.

Meanwhile, the cost of compliance with the rule is now projected to exceed the DOL's estimates by several multiples. And while firms have begun to develop market-driven solutions that would achieve many of the rule's objectives by more effective means, the current timeline for implementation will most likely prevent them from properly developing and testing these solutions.

This latest Oxford Economics study serves to bolster and expand on the comments made by 1st Global President and FSI Board Member David Knoch on FSI's behalf before the House Financial Services subcommittee on Capital Markets, Securities and Investment in July. (David's testimony is detailed elsewhere in this issue.)

During that hearing, David relayed a thorough and unsettling account of the fiduciary rule's impacts to date for 1st Global, its advisors and their clients. As troubling as those effects have been, the new Oxford Economics study shows us that the problems are, in fact, impacting every firm in the industry—and posing dire consequences for Main Street investors.

The study's key findings include:

- **Reduction in Product Choice.** Creating a diversified portfolio tailored to an investor's unique needs is a complex challenge, requiring an advisor to pull together disparate products from across the full spectrum of investment vehicles.

  As the Oxford Economics study shows, unfortunately, the fiduciary rule is already having a sharply negative effect on advisors' ability to perform this crucial function. One major broker-dealer interviewed for the study reports that it has cut the number of fund families offered on its platform from more than 400 to fewer than 30—a stunning reduction of approximately 93 percent.

  Since the plaintiff's bar—the main enforcement mechanism for the rule—is expected to focus on variation in fees as one key basis for potential lawsuits, many of the funds and fund families being cut from firms' product platforms are those that take a unique or innovative approach to investing (and which therefore have fee schedules that vary somewhat from other funds). Many of these funds could offer significant benefits to clients as part of a diversified portfolio—but under the DOL rule, they will no longer have access to them.

  The same goes for many retail alternative investment products, which previously offered clients low correlation to the broader markets along with attractive income features. Already, the DOL rule is taking many of them off the table entirely.

- **Market-Based Solutions Offer Better Outcomes—If They Only had the Time.** Oxford Economics found that mutual fund families and financial services firms alike have begun to develop innovative new products and practices that would move the industry toward greater transparency and more standardized pricing in ways that would be more cost-effective and better serve investors' interests than what is allowed under the current DOL rule.

  The solutions under consideration include level-pricing structures that would combine smaller upfront fees with trailing commissions to standardize pricing across various product categories, and ways to replace third-party revenue sharing arrangements with more transparent charges for service and expense reimbursement.

  Both ideas show great promise, but would require more time for firms to fine-tune their product offerings and secure broader distribution, as well as to implement new administrative and technology infrastructure, respectively. While the DOL's proposed 18-month delay to the full implementation date of the rule would help, solutions like these frequently take even longer to evolve into tried-and-true mass market products.

- **DOL Regulatory Impact Analysis Severely Understates Costs.** Oxford Economics also carefully re-examined the DOL's Regulatory Impact Analysis (RIA) to develop a more up-to-date and accurate assessment of the rule's costs based on currently available data. The results were not encouraging.

  Based on a detailed survey of broker-dealer expenses, Oxford Economics concluded that the rule's costs to this segment of the industry are running three times higher than the DOL's estimates. Extrapolating to other affected industry members, this implies total costs of $39 billion to $47 billion—an amount that already exceeds the DOL's estimates of the rule's benefits. Importantly, these costs do not even include potential outlays due to lawsuits under the rule, which are expected to significantly expand total cost numbers.

  Since many of these costs will inevitably be passed along to investors, the DOL's failure to properly account for the costs of its new rule represent another way in which the rule will harm the precise Main Street American clients it purports to protect.

As this latest Oxford Economics study shows, the negative impacts of the DOL fiduciary rule are as troubling as they are far-reaching. Smaller investors are already being driven out of the market for in-person financial advice, while those who remain are seeing their access to key products—and their ability to diversify their portfolios to meet their needs—severely curtailed.

As we have emphasized before, however, this fight is far from over. FSI will continue to do everything we can to represent the interests of our members and their clients. We look forward to continuing to update you on our progress.

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