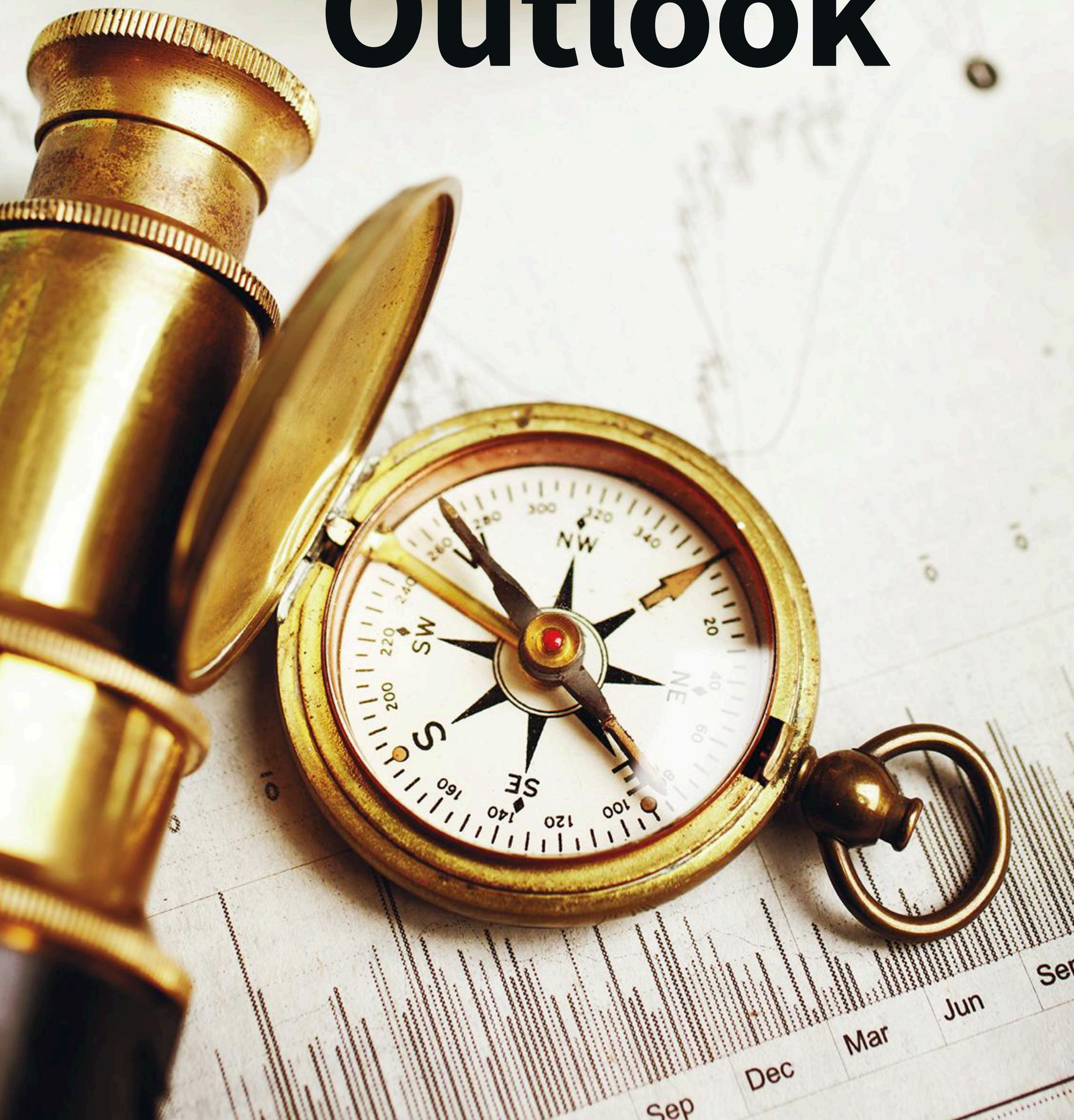
Wealth Management™

2019 Midyear Outlook



Allianz Life Insurance Company of North America

Our initial income percentages start STRONG – AND GET STRONGER

6.2%

Age 65 for single Level Income option

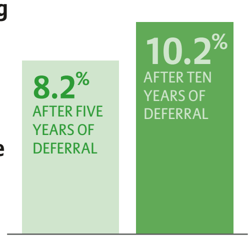
(5.7% joint Level Income option)

Income percentages are subject to change.[3]

Allianz Index Advantage Income® Variable Annuity is designed to help your clients meet their long-term goals with a unique combination of features – including indexed return potential with a level of protection through multiple index strategies (also called crediting methods), tax deferral with the opportunity to grow their savings faster, a variety of lifetime payout options, and a choice of death benefits.

How do our initial income percentages get stronger? Beginning at age 45[1], our Lifetime Income Percentages are guaranteed to increase each year your clients wait to start income, even if their asset values fluctuate.

For example, an individual purchasing the contract at age 65 would have a Lifetime Income Percentage of 6.2%, and it would increase by 0.40% for every year of waiting:



Please note: In addition to the Level Income option, the Income Benefit rider also offers an Increasing Income option.[2] This income option offers a smaller payment up front (1% lower than Level Income).

For more details, visit www.allianzlife.com/IAIncome.
For complete sales support, call the **Sales Desk at 800.542.5427**.

For all that's ahead.®

Allianz

[1] Initial Income Percentage at eligible person's age 45 (single, Level Income) is 4.70% and would increase by 0.25% for each year of deferral.

[2] A 1.25% product fee and 0.70% Income Benefit rider fee are accrued daily and deducted on each quarterly contract anniversary, calculated as a percentage of the charge base. The Income Benefit rider is automatically included in the contract at issue and cannot be added to a contract after issue.

[3] As of July 2, 2019. Lifetime Income Percentages are set at issue; income percentage increases are set on Index Effective Date (based on eligible person's age).

Lifetime Income Payments can begin on any Index Anniversary once the eligible person reaches age 50, and no later than age 100 after a minimum waiting period of one index year. Joint Lifetime Income Percentages are 0.50% lower than for single Lifetime Income Percentages. For joint income payments, the age of the younger eligible person will be used to determine income percentages, income percentage increases, and when income payments begin. Current rates for new business contracts are available at www.allianzlife.com/indexincomerates.

Withdrawals will reduce the contract value and the value of any protection benefits. Withdrawals taken within the contract withdrawal charge schedule will be subject to a withdrawal charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax.

As with any investment vehicle, variable annuities and index variable annuities are subject to risk – including possible loss of principal. Investment returns and principal will fluctuate with market conditions so that contract values, upon distribution, may be worth more or less than the original cost.

For more complete information about Allianz Index Advantage Income® Variable Annuity and the AZL® Government Money Market Fund, contact Allianz Life Financial Services, LLC for a prospectus. The prospectuses contain details on investment objectives, risks, fees, and expenses, as well as other information about the index variable annuity and the AZL Government Money Market Fund, which your clients should carefully consider. Encourage your clients to read the prospectuses thoroughly before sending money.

Guarantees are backed by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America (Allianz) and do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions.

• Not FDIC insured • May lose value • No bank or credit union guarantee • Not a deposit • Not insured by any federal government agency or NCUA/NCUSIF

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IAI-167 (8/2019)

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A Mid-Year Review

I'm not the first person to make this observation, and I'm sure you've noticed it yourself: We're drowning in information.

For financial advisors on the front lines, the pool of available information seems infinitely deep. An advisor could spend all their time going through the reams of articles, websites, whitepapers, market reports and practice management and technology guides out there—and they just keep coming.

The danger is we become so overwhelmed, that we retreat behind our established filters, deeper into the echo chamber of social media influencers, places where it's too easy to pick out the bits and pieces of information that affirm what we already know—and discount anything that doesn't fit. It can be hard to expand our knowledge when we keep going to the same sources for information—and yet we know that humility, curiosity and a willingness to learn are keys to professional success.

So consider this collection of recent articles a challenge. You'll find current market views from asset managers, as well as articles on technology for your firm and some best business practices. Some of it you'll be familiar with, some of it will be new. The idea is to provide you with something you can skim at your leisure, or zero in on the contributions from firms that may be of interest. Let serendipity be your guide.

The requirement from the writers? No sales pitches allowed, and the article must provide points of insight or education. Does that mean you'll find all of it useful? Not even close. But bringing it together between two covers imposes some kind of order on the information overload and, ideally, helps you quickly discover some new learning or insight that may be helpful to you and your clients.

David Armstrong
Editor-In-Chief


ISN'T IT ABOUT TIME YOU GOT A BETTER RETURN ON YOUR INVESTMENT?
Hard work. Perseverance. And a little ingenuity. To be a successful independent advisor these traits are necessary. So why accept anything less in your broker-dealer. You want a team with an award-winning coaching program, invaluable resources, and unparalleled one-on-one service. A team whose success is based on your success, and will be there for the long haul. Supporting you. Guiding you. Working as hard as you to improve your return on investment.
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Why Advisors are Considering Outsourcing Investment Management Activities

By Barrett Ayers
ADHESION WEALTH

Recently, TD Ameritrade and FA Insight conducted a survey revealing the appetite for investment outsourcing services across both advisory and investor communities. As the study illustrates, the expectation gap between what advisors ***think*** they should be doing vs what clients ***expect*** them to be doing is tremendous. The study suggests that the industry has responded with new technological advances such as the Unified Managed Account (UMA) and Model Marketplaces, all with the promise of allowing advisors to spend more time with their clients, create much-needed process improvements, and expand their menu of services offered.

While more than 70% of advisors thought their clients wanted them to perform investment management functions, more than half of their clients had no preferences "as long as my investments are secure and performance is satisfactory". ***(Outsourcing: Striking the Right Balance Between Customization and Efficiency, fa insight/TD Ameritrade Institutional Benchmarking)***

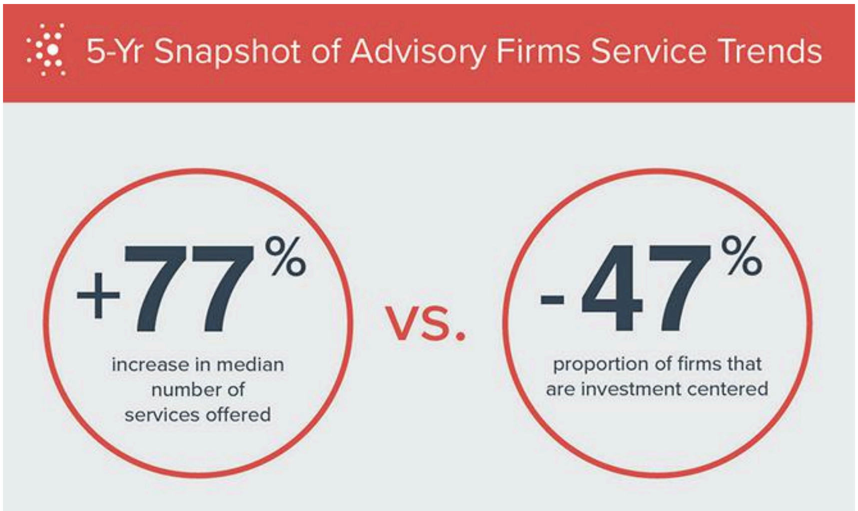
As a response to this widening expectation gap, the share of firms starting to position themselves as an investment manager has shrunk in half. Over this same period, the study shows that as the options for outsourcing investment management activities have grown, these firms have significantly expanded the services offered to clients.

Further, the study discovered that clients with higher income-generating potential reported the least resistance to the outsourcing of investment management activities. For example, the study found that 83% of clients with 70% or more of their assets managed by an advisor and two-thirds of investors with $250,000 or more in assets had no preference for an advisor's direct involvement with their investments.

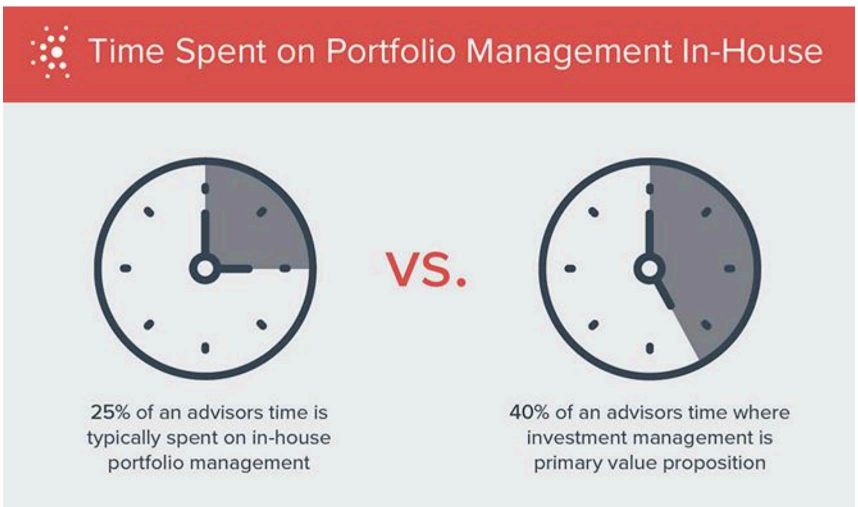
Outsourcing all or parts of the investment management process can create efficiencies and free up time to be reallocated to client-related activities. The benefit of efficiency gains or time savings were cited by 77% of the firms participating in the study as an advantage of outsourcing.

Not surprisingly, both advisors and clients feel that they need to spend more time with each other. Jettisoning the investment management function is the primary mechanism to get that time back because not only is it expensive and time-consuming to do properly—it is clearly not adding much perceived value. In the face of fee compression and newly emerging forms of competition, the need to build a scalable yet relevant offering is of paramount importance on the path to growth.

So, if that's the case, what does it really mean to outsource investment management activities? This can be divided into two key areas: research and administration. Some advisors choose to outsource both, some choose to outsource one or the other. The good news is that in today's marketplace, partnering with the right platform will provide you with the flexibility to mix and match the right modular solution for your business. But choosing the right partner is key in this process.



The study describes this trend as a push and pull. Advisors are being pushed to provide more value for fees. At the same time, innovation and increased options for outsourcing have pulled them in this direction.



The study showed that 25% of a typical advisor's time is spent on investment management activities, while an advisor whose primary value proposition is investment management spends 60% more time on these activities.

Flexible Outsourcing

Unlike traditional turnkey asset management programs ("TAMPs"), which offer a one-size-fits-all approach to outsourcing investment management, there are Open Architecture Managed Account Platforms that specialize in providing advisors with an array of flexible choices. It's possible to find an open architecture roster of SMA models, ETF Strategists, Fixed Income managers, individual ETFs, and Mutual Funds—and some even offer a range of Outsourced Chief Investment Officers (OCIOs)—along with a toolset to find all the right pieces of the investment puzzle—all in one place. When coupled with flexible 'overlay' management capabilities, scale through outsourcing is now achievable to independent advisors of any size.

Research

Some platforms offer a range of research options from DIY—to partial guidance using platform tools and investment consulting teams—to full outsourcing to an OCIO provider who can deliver asset allocation, portfolio construction, manager selection and institutional-caliber research to match the style and investment preferences desired by your firm. In choosing an outsourcing partner, it is important to find the right fit for your firm and ensure that you are able to continue to deliver on your overarching investment themes and philosophies to your clients.

Administration

Platforms can assume all the trading, rebalancing and administration of your investment strategies according to agreed upon investment parameters chosen by your firm and some even offer a range of optional tax and transition services that you can elect on an account-by-account basis in cases where it makes sense to demonstrate a higher touch and higher value service to specific clients.

As you choose a partner it is paramount to ensure that all of this is delivered with a white-glove level of service and respect for the philosophy that your clients always remain your clients. Be sure to look for a partner who will not stand between you and your clients, who will focus on enabling you to deliver the outcomes your clients seek, not to co-opt those relationships. ■

Barrett Ayers is the President of Adhesion Wealth.

The Seven Deadly Sins of Estate Planning

By Steve Lockshin
ADVICEPERIOD

Many families approach estate planning without the knowledge needed to truly understand best practices. We've highlighted seven key items to consider when speaking with your lawyer or advisor on estate planning.

1. Too often, individuals only consider irrevocable gifts when they are certain they have sufficient assets to maintain their lifestyle. **In actuality, irrevocable gifts enable grantors to retain control, cash flow, and their lifestyle.** Individuals with estates larger than $6 million should take the opportunity to gift those assets before 2026 to avoid the risk of an estate tax clawback.

2. Many trusts require distributions of principal at certain ages (e.g., at 35, 45, and 55 years old). These distributions may make assets subject to creditors and, if not properly segregated, these assets could become marital/community property and thus subject to loss in the event of a divorce. **Instead, lifetime trusts can be established, offering protection from creditors and/or divorce.** When combined with GST exemptions, lifetime trusts can grow in perpetuity without ever being subject to estate tax.

3. When making critical decisions about estate structure and distributions, most people fail to see the power of planning beyond their living heirs. This myopic view often leads to per-stirpes planning. **While per-stirpes planning is the default recommendation for most estate planning attorneys, per-capita planning provides the greatest opportunity for family wealth to last multiple generations.** If you have legacy wealth, properly plan for your legacy through equal distribution of assets.

4. Most trusts lack the flexibility required to truly plan dynastically. It's easy to view additional provisions as unnecessary complications to your documents, but ensuring irrevocable documents contain provisions—such as change of situs and decanting—means maximum trust flexibility. Do not assume your lawyer is forward-thinking and uses modern practices because he or she has wealthy clients. Stay ahead of the game and make your trust flexible.

Estate Planning Building Blocks

$ 0-10M	$ 10-30M	$ 30-100M	$ 100M+
Core	**Exemption**	**Freeze**	**Legacy**
Complete core Estate Planning documents	Complete core Estate Planning documents + Start using your exemption(s)	Complete core Estate Planning documents + Start using your exemption(s) + Use all of your exemption(s) & begin "freezing" assets in estate	Estate Planning is a full-time job.

*Assumes planning for a couple. Divide in half for individuals.

5. Attorneys often overlook advantageous ownership structures and transfer sequence when executing estate planning and/or business transactions. **Properly structuring asset ownership (before gifting or selling) can reduce the fair market value, and thus reduce the use of lifetime exemption.** It also enables streamlined administration and liquidity control.

6. Choosing the proper state to initiate generation-skipping trusts can majorly impact your family balance sheet. For example, California's high income tax and rule against perpetuities (RAP) generally make it a poor selection for trust situs (jurisdiction). Conversely, utilizing a non-California trustee is a cost-effective choice for extending (or even eliminating) the RAP and avoiding California's aggressive income tax regime. We recommend utilizing favorable trust jurisdictions such as Delaware, Nevada, Wyoming, or South Dakota.

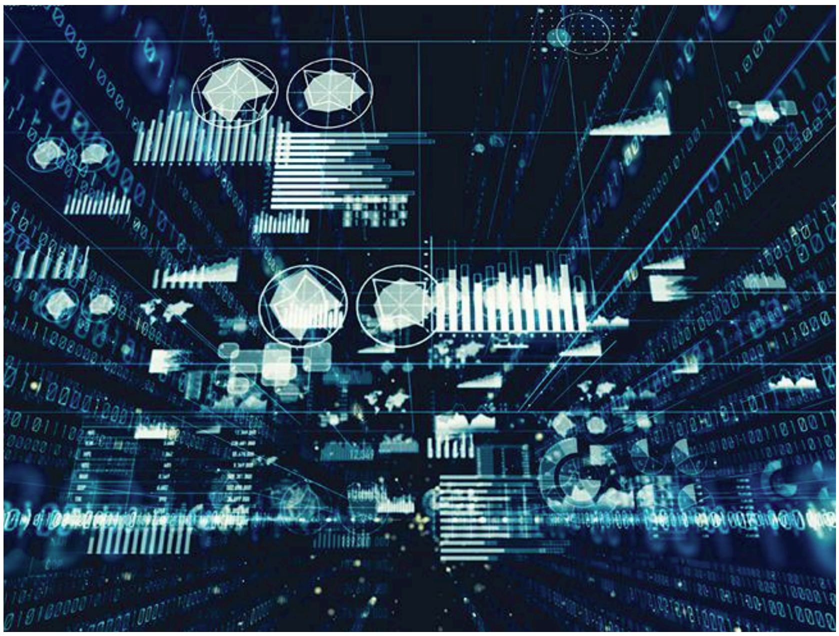
7. Picking an individual you trust as your trustee, while seemingly conspicuous, is often underthought and overlooked. Trustee selection is crucial; consider hiring a private trust company or administrative corporate trustee to provide professional guidance, sufficient liability coverage, and advantageous situs. ■

Steve Lockshin helped pioneer the independent advisory industry, building one of the largest independent RIAs in the nation, and is now a Founder and Principal of AdvicePeriod..

Learn more at www.adviceperiod.com.

Top Ten Tips for Tech Integration

By Trisha Qualy
ADVISORNET



Technology integration is the phrase on everyone's mind in most industries, but especially wealth management and financial planning. Our clients rely on us to be up to date and efficient, and integrating new tech is a necessary step in doing this. However, be careful about leaping into a new software or piece of technology without doing any research first. It may not help or may actually hinder your business to simply adopt any and all technology because it is the newest and shiniest thing. To help you and your business thrive by utilizing tech advancements, here are ten great steps to integrating technology into your business.

1. **Be wary of integration claims and question levels of integration.** Ask if integration is necessary or even helpful for what you are trying to accomplish.
2. **Make an extensive list of why you are using the technology.** Will the integration solve your issue? Understand what you need from integration, rather than integrating for the sake of it.
3. **Get in writing what data fields are shared.** As part of your integration, understand exactly what is being shared and make sure it is confirmed.
4. **Find out how often data is shared.** Along with what is being shared, understanding how frequently your data is being shared is integral as well.
5. **Talk to the other vendors involved in integration.** They may be able to give you insider knowledge or provide you products that more effectively integrate with your technology.
6. **Talk to current users of the integration.** Everyone uses technology and integrates differently. Find out how your peers are using theirs and see if any of their strategies are helpful to you.
7. **Confirm privacy and data security.** Don't ignore privacy for the sake of efficiency. Your data is incredibly important, so make sure you understand how it will be protected.
8. **Get a free beta test.** Test your technology before you commit. You can see how easy it is to actually use and integrate.
9. **Make a map of the data feeds for future reference.** You always want to be able to reference your past data, especially if it is being shared across multiple platforms. Don't lose your information!
10. **Complete a due diligence checklist.** AdvisorNet Wealth Management has a free checklist available. Contact us at wealthmanagement@advisornet.com to get access and talk to us about integrating technology into your practice. ■

Trisha Qualy is the Vice President of AdvisorNet's Wealth Management RIA platform.

Learn more at www.advisornet.com.

AdvisorNet FINANCIAL

Trade Talks Expected to Dominate Rest of 2019—But Not Steal the Show

By Scott Colyer
ADVISORS ASSET MANAGEMENT

It may come as no surprise that the trade war with China has emerged as the top contender for the issue most likely to dominate the investment landscape for the second half of 2019.

Its status as most engaging investor storyline, however, has been more a case of "squeaky wheel syndrome" than defining macro policy, as the issue that makes the most noise usually garners the most market attention.

It's true the markets seem easily rattled by President Trump's decidedly provocative diplomacy, and contend with a nagging uncertainty around when or what kind of deal might emerge. The president's plan to expand tariffs to an additional $300 billion in Chinese imports would amount to a levy on almost all Chinese exports.

But while U.S. manufacturers among some sectors in our economy do have legitimate concerns, there's little to suggest current negotiations or ensuing policy would result in a recession or widespread domestic turmoil.

Most would agree that trade wars inflict damage on both sides, not unlike the casualties that result from actual war. And all political leanings aside, it's generally not in the nature of elected officials to impede growth or work against the interests of their constituents in any large-scale way if they want to pursue time in office.

If President Trump's past technique is any indication, the trade rhetoric will dial down significantly in the coming months. The blustery talk is likely to be tempered by the discovery of mutual interests by the two countries, as the dispute morphs in some palatable trade deal struck by an exultant president. We shouldn't be distracted by what is ultimately a trademark political negotiating tactic.

As a segue into the second issue most likely issue to dominate the landscape in the remainder of 2019, the Federal Reserve—also not immune to fear over an escalating trade war—seems primed to cut interest rates as a way to prolong economic expansion. A continued flattening yield curve and data indicating slowing economic growth are two more reasons for the central bank to head down that road.

In addition to energizing the U.S. economy, the stimulative quantitative easing also serves to pave the way for a weakening dollar, which in turn stimulates emerging markets and developed foreign markets. Investors might find more attractive returns outside the United States in the latter part of the year. Although not as cheap as December, the MSCI Emerging Markets Index is trading at eight times 2019 estimated earnings. Europe is also cheap, trading at 15 times 2019 estimated earnings.

Such pullbacks are healthy for the economy and for sustaining bull runs. And while looming tariffs might feel daunting, we'll see valuations in the equity market trend upward as long as we can keep earnings growing.

Monetary, as well as fiscal, policy supports growth in both the emerging and European markets. And emerging markets tend to do well when developed markets are growing. But the moves in emerging markets and Europe are also a harbinger of growth to come—or rather of value overcoming growth. These next few months also potentially a good time to buy cyclicals, such as industrials, energy, materials, financials and consumer discretionary, as growth has outperformed value for one of the longest time periods in history. ■

Scott Colyer is CEO and CIO of Advisors Asset Management, a trusted asset management and analytics resource for financial advisors and broker/dealers.

The Future State of Wealth Management

Q&A with American Bankers Association's Jennifer Dugas and Strategic Advisory Consulting Group's Dave Coffaro

By Jennifer Dugas and Dave Coffaro
AMERICAN BANKERS ASSOCIATION

Can you describe the future state of wealth management?
We are in the early phases of the largest intergenerational transfer of wealth in history; client expectations are evolving, and the way in which bank advisors interact with clients and deliver service is rapidly changing. Currently, wealth managers are trained to focus on technical aspects of the business—but the future of wealth management will make a paradigm shift to the purpose of the business. The wealth conversation must be built and centered on the client—who they are, what they value, their perspectives on money and wealth—which will make future advisor's sole purpose to help their clients achieve their financial goals.

Who will the wealth client be in 2025?
While similarities may exist based on wealth levels, growing distinctions across client segments will require banks to differentiate the way they serve sub-segments. By 2025, owners of wealth will span five generations—the Silent Generation, Boomers, Gen X, Millennials and Gen Z—and wealth creation and transition will be at the forefront of the conversation. Additionally, an increase of senior, ethnically diverse and women wealth owners—all with established financial attitudes—will demand engagement individualization to address each client's unique needs.

How will the future state of wealth management impact client expectations from advisors?
Bank wealth clients will expect advisors to understand their goals and aspirations. Advice must be individualized and simple. By integrating a multitude of wealth options through technology and personal advice, high-level and individualized service is not only needed but expected. Furthermore, stewardship of wealth and meeting clients' social responsibility expectations of the firm and their investment options will be much more important. Wealth advisors will need to initiate conversations to offer meaningful advice to enrich the client's life, family and community.

With technological advances and the demand for personalized advice, what skills are essential for bank advisors to better to serve their clients?
At the forefront, it will be crucial for wealth advisors to articulate their bank's value proposition and their unique ability to provide wholistic, full-balance sheet advice. Technology will augment the role of the advisor, but wealth clients will continue to want individualized advice. There are several key areas that advisors should focus on to better serve their clients:

- Relationship management – anticipating needs, providing sound advice and education to deliver superior service from a true fiduciary advisor.
- Emotional Intelligence – empathically understanding the client, their values and preferences, asking better questions and listening more intently to enhance the experience.
- Data integration – increasing the meaningful application of client data to accurately anticipate client needs.
- Understanding of multigenerational, multidimensional and gender-specific differences – being conscious of client's unique priorities, situation, goals and aspirations.

Learn more about the future of wealth management from ABA's upcoming offerings.

ABA Trust Schools (Foundational, Intermediate and Advanced) September 22-27, 2019 | Atlanta, GA | aba.com/ts

ABA Wealth Management and Trust Conference February 23-25, 2020 | Orlando, FL | aba.com/wmtc ■

Jennifer Dugas is Program Director for ABA Wealth Management and Trust Conference and Trust Schools.

Dave Coffaro is a Strategic Consultant to ABA and is the Founder of Strategic Advisory Consulting Group. He has more than 30 years of experience as a strategic organizational advisor, leader of diverse teams, and developer of people. A proven designer and initiator of growth-focused business strategies, Dave continues to refine his craft and lead his profession.

Learn more at www.aba.com.

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Easing Baby Boomers into Retirement

By David A Littell
THE AMERICAN COLLEGE OF FINANCIAL SERVICES

In the last decade, the number of retired Americans has increased by almost 30%. And with 10,000 Baby Boomers turning 65 every day, the numbers of retirees will only continue to grow.

How prepared is the financial industry to handle this?

Let's start with a basic fact: the financial needs and concerns of those approaching and living in retirement are fundamentally different than the financial needs and concerns of younger adults. Rather than focusing on accumulating wealth, older adults must determine the best ways to use their resources to meet their spending needs throughout retirement.

How do they maintain a comfortable lifestyle while ensuring they don't run out of money?

The more prepared you are to help clients answer that difficult question, the more value you'll be able to offer the expanding ranks of older adults. To provide the most assistance, you'll ultimately want specialized training, but there are steps you can take right now to help older clients prepare for retirement. Specifically, you should go over a series of questions that address key planning considerations.

1. Work/career questions:

- Does your client hope to retire fully or work part-time?
- What employment possibilities are available for working in retirement?
- How much would your client like to work in retirement and for how long?

2. Leisure-time questions:

- Does your client have personal, professional, or charitable goals in retirement?
- What activities does your client see replacing the time they were working?
- Are there new activities your client wants to try or hobbies they want to take more seriously?
- How will they replace "meaning" they may have found through work?

3. Relationship questions:

- What does your client's support network look like?
- What effect will your client's retirement have on family members?
- Does your client see retirement as a time to make new friendships or renew old ones?

4. Income and benefits questions:

- Is full-time retirement financially feasible?
- What plans have been made for health insurance benefits?
- How much income will your client's investments and retirement benefits generate?
- What steps does your client need to take to receive benefits?

5. Retirement planning questions:

- What are the core factors for your client to enjoy retirement?
- If there is an unexpected financial or medical setback, is there a backup plan?
- Does the overall plan meet the demands of personal, social, and financial changes?

With these and similar questions, you and your client can establish reasonable goals and expectations for retirement, which you can use to develop a strong financial plan. While it's a form of financial planning many advisors lack experience in, it's one that will increasingly be in demand. Advisors who hold the Retirement Income Certified Professional® designation are recognized as having received specialized training in how to structure effective retirement income plans, how to mitigate risks to the plan, and how to create a sustainable stream of income to last throughout a client's retirement years.

The more expertise you have in retirement planning, the more value you can provide and the broader your client portfolio can be. ■

David A Littell, JD, ChFC®, holds the Joseph E. Boettner Chair in Research at The American College of Financial Services and is an expert in retirement planning and understanding the older client.

Learn more at TheAmericanCollege.edu/RICP.

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Beyond Traditional Real Estate Debt: Custom Designing your Capital Stack

By Paul Letourneau
ALLIANT CREDIT UNION

Dealmaking is a relationship business for family offices and specialty lenders—and increasingly, more traditional lenders are looking to partner on business opportunities. At this stage in the market cycle, it's important to look at all available sources for the capital that will get a real estate deal done. And when you evaluate your options, you may want to look into new approaches to the loan itself as well.

From mezzanine debt to preferred equity participation, there are many building blocks that can be used to construct the capital stack for a real estate development. When there are so many capital providers competing for so few deals, it's important to keep as many options on the table as possible. One often overlooked structural opportunity is a loan-on-loan arrangement, which takes advantage of the attractive funding rates that oftentimes can be provided by a credit union. This construct can be an interesting way to finance transactions in asset classes such as multifamily, non-spec industrial, hospitality and self-storage.

Understanding the loan-on-loan structure

Let's examine a hypothetical example to understand the capital stack in a loan-on-loan approach. In this scenario, a developer is building a property for $20 million and obtains a construction loan from a specialty lender at a 75% loan-to-cost ratio, or $15 million. The specialty lender, in turn, partners with a credit union to provide a loan-on-loan of $7.5 million, which is collateralized by the loan to the borrower.

The loan-on-loan takes the last loss position in the capital stack. In return for the additional safety of that position, the credit union would price their loan at a lower rate than the specialty lender is charging to their direct borrower. For example, if the loan to the borrower features a rate of 8.5%, then the loan from the credit union might come in at 6.5%, thereby giving the specialty lender a spread of 200 basis points and increasing their overall margin.

The specialty lender benefits from a lower cost of capital, enabling them to offer a more attractive loan to their borrower. The credit union, meanwhile, is able to participate in a safer position versus going it alone.

When to consider a loan-on-loan

Specialty lenders may consider a loan-on-loan approach when they're close to hitting their exposure ceiling or need to share the risk of a loan. They are able to lend more to a single borrower because the loan is diluted with one or more institutions, and bringing partners on board reduces the overall risk held.

This structure is equally beneficial to the underlying borrower (the developer in our example above). A specialty lender generally has a shorter closing time frame and high reliability, allowing borrowers to access capital faster than if they were to seek traditional financing. And because the specialty lender is able to reduce their cost of capital with the loan-on-loan, they often will share the savings with their borrower. While multiple partners may be involved in financing the transaction, the transaction will be seamless, feeling like any other loan from a single lender because the specialty lender retains the primary relationship.

In the competitive field of commercial real estate lending, lenders and operators should consider any avenue that gives them a competitive edge. Employing a loan-on-loan program allows family offices, debt funds, pension fund advisors and private specialty lenders to offer better terms, distribute the risk, and hopefully win more deals. ■

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Learn more at www.alliantcreditunion.org.

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The Measure of Alpha

By Clifford T. Walsh, CFA
AMERICAN PORTFOLIOS

In 1973, author and social critic Norman Mailer coined the word "factoid" to describe false information, which when repeated often enough, would come to be viewed as a fact. Today, more often than not, factoid is used to describe a trivial piece of information. A similar evolution in meaning can also be seen with the word "alpha."

During the earliest stages in the development of capital asset pricing theory, alpha was a measure of market inefficiency, not a measure of portfolio manager skill. In other words, where a non-zero alpha was discovered, it was evidence of market inefficiency.

Only later did alpha morph into a description of manager skill as the usage made the logical jump that smart managers should be able to profit from market inefficiencies and, therefore, should show up as positive alpha.

Alpha is a Scarce Resource

Markets can be inefficient; smart, talented managers should be able to exploit these inefficiencies to deliver superior returns over the long-term. Easier said than done.

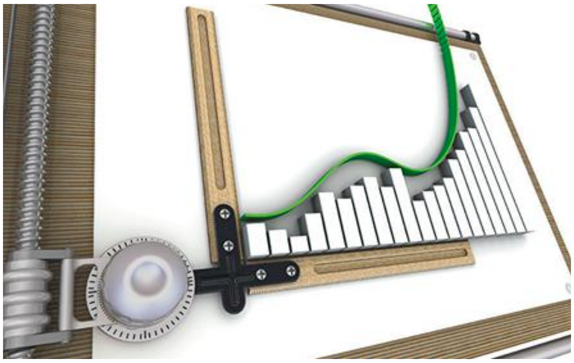
Multiple academic studies have shown that few managers are able to persistently generate positive alpha over extended time horizons. Perhaps the biggest reason for this apparent failure is that the skill level among portfolio managers has narrowed considerably since the Capital Asset Pricing Model (CAPM) was postulated. Remember, the probability of sustained outperformance is much higher in an environment marked by a greater disparity in talent and information.

A corollary challenge is then determining whether positive alpha is a reflection of luck or skill. Any definitive verdict on this can only happen retrospectively, which is of no help to investors.

Even where alpha may be found, it may not be enough to overcome the higher fees typically associated with active management. For instance, the S&P 500 has an alpha of 82 bps according to the Carhart model, and 72 bps according to the Fama-French model1—neither of which is sufficient to overcome the average expense ratio of an actively-managed large cap mutual fund.

Mining Alpha

If advisors go back to the original meaning of alpha, i.e., market inefficiency, then the search for alpha perhaps should be



more focused on where and when market inefficiencies exist.

One rich source of market inefficiency resides in the biases that play out in the market each day, such as herding, recency bias, loss aversion, and old-fashioned fear and greed.

Another source of market inefficiency exists where talent and information are less developed than, say, in U.S. large cap stocks. For example, private equity, emerging markets, real estate, high-yield bonds and distressed debt may all be investment niches that—due to a greater deviation in talent and less widely distributed information—offer the potential for managers to add value to investors' portfolios. ■

As the Chief Investment Officer, Cliff T. Walsh, CFA focuses on providing investment and economic research to all American Portfolios Advisors, Inc. (APA) advisors and sales support teams. He also creates and maintains a series of proprietary investment portfolios under the Nine Points Investment Management brand and supports product due diligence for separately managed accounts (SMAs), mutual funds and third-party mutual fund wrap programs.

Learn more at www.americanportfolios.com.

Fasten Your Seatbelts: First Half Signals Major Industry Change Ahead

By Bill Capuzzi
APEX CLEARING

The year 2019 is shaping up to be a game-changer for the wealth management industry. In the first half, we've experienced major moves in pricing and shifts in the competitive landscape, while the march towards more scalable, fully integrated digital + human models carries on. Nimble disruptors continue to flourish, but in the first six months of 2019, the industry behemoths really started flexing their muscles and Goliath has awakened. In my opinion, these are the three most relevant trends to emerge in recent months and how they'll set the stage for continued change.

#1 The New Price Wars

The large direct-to-consumer firms have declared a price war, and the territory is the digital + human advice model. Schwab's move to subscription-based pricing for its Intelligent Portfolios Premier service set out to beat Vanguard's PAS—and all bets are on Fidelity and TD to follow soon. These offerings marry automated and human advice, and essentially unmask pricing for financial guidance. Vanguard, at 30 basis points, charges less than a third of what traditional firms charge, and the subscription models convert to hourly rates which can be much lower still.

Advisors will be facing questions about price more than ever, as their clients see the advertising of these new services and associated fees. When Schwab, Vanguard and Fidelity say, "comprehensive planning" and "expert advice" it sounds pretty good. Intangibles like relationship quality are hard to express and market, and today's consumers expect clarity about the features and benefits of the products they choose, relative to the price they pay.

In Cerulli's 2018 survey, 70% of advisors said clients are more fee sensitive than 5 years ago. In 2017, Fidelity's Benchmarking report said over three-quarters of RIAs are already discounting their fees. That said, people still care about access to an advisor—a Harris poll in late 2018 found 88% of consumers still believe human advice is valuable and that technology should support it, not replace it. However, the number one drawback of traditional wealth management in that poll and others is cost. In this perfect storm where price disruptors will be marketing aggressively, and consumers are skeptical, we need to get costs down for both providers and investors.

#2 Competition from Custodians

The same companies that are fueling the price war are the custodians for a large portion of the industry's advisors. It's a complicated history—to grow and scale their own businesses, today's largest custodians embraced supporting advisors and their clients on platforms serving broker-dealers and RIAs. The advisors benefited from capabilities to help them in the front, middle and back office, and in many cases enjoyed the halo effect of the custodians' retail brand on their own small business. While at some level the custodian and advisor could be competing for the same clients, they mainly co-existed as more friends than enemies.

This peace depended upon trust and some rules of engagement regarding the retail investors. In the old days, it was possible to set up marketing suppression rules like "do not call" and "do not mail" to segregate the clients assigned to an advisor and remove them from retail marketing campaigns. In the era of digital and social marketing, that's no longer possible. The price wars and associated advertising have ended the truce between custodians and advisors, and the battle lines are being drawn.

While advisors focus on protecting their older high net worth clients, the big retail players are targeting the next generation of investors, cutting off a supply of future clients. The truth is, as of 2030, Boomers will no longer be the wealthiest generation, and the likes of Schwab, Fidelity, Vanguard and others are playing to win over the long haul. As advisors wake up to this, the cozy relationships once enjoyed with the multichannel custodians will feel a lot less comfortable.

#3 Scaling to Win

What the pricing war and the custody battle have in common is a lesson about scale and power in the marketplace. Players with scale—which can be size, or cost structure, or both—have an advantage. As our industry moves into a highly competitive phase, every firm needs to ask the question, "Do I have the resources and efficiency to win in this environment?"

Winning may mean having the power to cut your prices, or spend on marketing, or invest in your offering. Consider the two merger transactions involving national RIAs—Edelman and Financial Engines, and the pending deal between United Capital and Goldman Sachs. Along with other strategic benefits, both create large wealth managers with a chance to scale and compete on a whole new level. These are not roll-ups, they are integrated models with consistent and common infrastructure. Consolidation of mid to large size firms will continue, and more pressure will be placed on aggregators to prove efficiency to ensure their underlying firms do not lose power in the marketplace.

In the first six months of 2019, the industry behemoths really started flexing their muscles and Goliath has awakened.

But just being bigger, or consolidating operations, isn't enough. It's time to rebuild the pipes and plumbing we all use to put money to work in our industry. When we replace high friction processes like batch, ACH and ACAT with digital technology and straight-through processing, we will radically improve the speed, flexibility and cost-efficiency of financial services for everyone. Today's infrastructure is obsolete – it's a critical frontier for innovation. With the pressure on to improve market power and competitiveness, we can't ignore how our old plumbing drags us down.

People react to challenges in different ways. We've known that pricing pressure was coming our way, and there have always been watchful eyes waiting for the custodians to break their truce with advisors. For over a decade, promises have been made about scale and efficiency from technology, but that hasn't paid off beyond incremental gains. Even so, the industry has prospered as Baby Boomer assets have continued to flow into accounts. The skeptics found their reasons to stay on the sidelines—kicking the can down the road for as long as possible. Why change when times are good?

But change has its tipping point, and I think we are in a phase where the line between firms looking to the future and those hanging on to the past just got brighter. Halfway through 2019, it feels like time to fasten your seat belts. ■

Bill Capuzzi is the CEO of Apex Clearing.

Learn more at www.apexclearing.com.

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An Advisor's Most Important Asset: Human Connectivity

By Eugene Elias, Jr.
ATRIA WEALTH SOLUTIONS

The velocity of change is unprecedented in financial services today. Our industry is being influenced and transformed by non-financial services firms. Financial consumers are demanding more from their providers than ever before and only a portion of those demands are being met by our industry. Their asks are right and they should demand them. They want more technology, more planning, easier ways to do business and broader solution sets that handle not just their investments, but also every other aspect of their financial lives.

The broadening of consumer demands has created a real challenge for our industry. Firms that can substantially meet these demands in highly efficient and cost-effective ways will be the leaders tomorrow. It's not simply about providing more technology, more planning tools, more products and more services. It's about meeting these demands in a meaningful and useful way for the consumer—this is the role of the financial advisor.

Financial advisors sit in the center of all of this activity and are best positioned to set the context and framework for the client. They are able to understand the unique situation of each client on a human-to-human level, come up with a plan and then manage that plan throughout the life of that relationship. All of the other pieces like technology, data and products are simply tools to be used to assist in the fulfillment of meeting the goals of the client.

As we have seen over the decades, technology, products and services all change and evolve. Many simply get commoditized or replaced. What doesn't change is the importance of the human-to-human connection. The trust and bond formed between advisor and client is what lasts and will never become commoditized. As long as the advisor is focused on understanding the needs of their clients at a personalized level and has the tools to implement solutions that can meet those needs an advisor will never be replaced.

As an industry, our focus needs to be on providing advisors with the capabilities that enable and enrich the connection with their clients—creating an environment that fosters trusting relationships. At the end of the day, that is what is most valuable in any human connection. ■

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Learn more at www.atriawealth.com.

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Look to the Long-Term, Not the Next Quarter

By George P. Schwartz, CFA
AVE MARIA MUTUAL FUNDS/SCHWARTZ INVESTMENT COUNSEL

I've heard many tv talking heads assessing the economy say that we're living in uncertain times, which is kind of funny because all times are uncertain. That said, there's no question that the economy is slowing from the rapid pace of growth in the first quarter and most of last year. There's also the question of how impactful last year's tax rate cuts will be over the next several quarters. They certainly helped boost corporate profits by close to 20% for major US corporations last year. It looks like that number for 2019 is going to be in the single digits. Add into fears of further escalation of the trade war and you've clearly got a nervous market.

That's led to a lot of talk about volatility, by which the commentators mean downside volatility since when the market is going up, even sharply, no one seems to call that volatility.

I think the current downside volatility is attributable to four Ts: trade, tariffs, Trump and tweets. A lot has to do with the 24-hour news coverage of the markets here and around world that creates a short-term, speculative attitude. While there have always been investment speculators, the stock market isn't a Las Vegas casino. The stock market is about raising capital for corporations to grow and expand, to become more profitable, thus creating more jobs and opportunities. Investing should be a long-term proposition, and not based on whether the Dow Jones or the S&P 500 is going to go up or down 1-2% in the next few days or the next few weeks.

Although I stay aware of what's happening on a day to day basis, that's not what informs my investment decisions. My objectives are long-term and that means paying attention and basing decisions on economic fundamentals, not technical analysis or stargazing or what someone said last on CNBC, MSNBC or any other cable networks. It's the fundamentals that matter, and the fundamentals of American corporations remain strong. Balance sheets are strong, the products are good and assuming this trade war doesn't escalate and last for several years, in all likelihood, the US economy will continue to grow. American style capitalism works, despite what many critics on the left are saying with their fascination with socialism.

Trying to outguess the near-term swings in the stock market or the near-term swings in interest rates, which help determine short term stock prices or spending time forecasting inflation expectations of the next quarter is in my estimation a fool's game. The fixations with short-termism and trading based on what some "expert" thinks could happen in the next few months is speculation, not investing. Over the long-haul, it is my belief that well-selected equities of companies with bulletproof balance sheets that produce great products, that are leaders in the market who deliver consistent high profit margins and high return on equity are the key to successful long-term investing. ■

George P. Schwartz is Chairman and CEO of Schwartz Investment Counsel, Inc., author of In God We Trust: Morally Responsible Investing and co-portfolio manager of the Ave Maria Rising Dividend Fund and the Schwartz Value Focused Fund.

Learn more at avemariafunds.com.

Enhancing Fixed Income Returns

By Jodi Vleck
BETA ASSET MANAGEMENT

Enhancing Fixed Income Returns

While the economic rollercoaster is bound to give financial advisors a continued ride of market fluctuations and geopolitical surprises for the remainder of 2019, one thing is certain: low interest rates are going to linger for quite some time. Savvy registered investment advisors (RIAs) may need to look outside traditional investment instruments to enhance yields for their clients. An options overlay strategy may be a viable solution for forward-thinking RIAs.

When developing the Beta Enhanced Income Strategy, nearly 10 years ago, the firm's goal was to offer clients an alternative income-producing vehicle which could be managed on top of their diversified portfolios. The strategy provided an opportunity to achieve additional income while maintaining a relatively low risk-reward profile. As the strategy began yielding positive results, its popularity grew and began generating increased interest and demand from outside money managers. This demand is ultimately what motivated the firm to launch a separate, new institutional division.

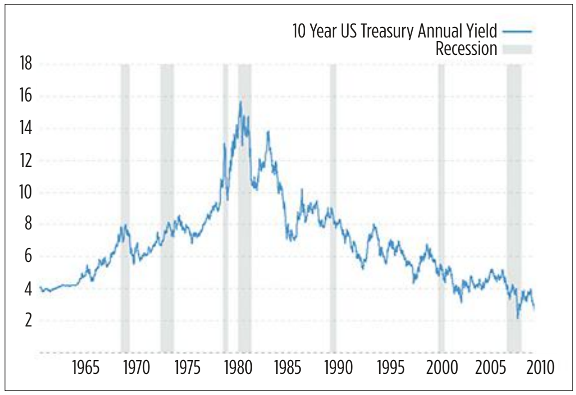
What is an Options Overlay Strategy?

Options overlay strategies, when executed properly, can enhance income while reducing risk in a wealth portfolio. This strategy also allows investors to benefit from fluctuations in the market —using existing positions as collateral, rather than having to purchase a stock at the full trading price.

This "enhanced income" strategy involves writing Out of the Money (OTM) put options on equities that are viewed as undervalued, oversold and lightly levered. The goal is to create an income stream from the sale of puts. Investors can select account collateral or use existing positions, such as a large single stock position that the client does not want to sell, providing a foundation for the overlay strategy.

What are the advantages?

In down markets, the option premium (insurance) received cushions the price decline in an equity portfolio. The trade-off is that in strong equity markets, the upside potential of the equity investment is limited. Many investors using options overlay strategies are finding that an options overlay strategy can offset losses in a stock portfolio.



Why now?

The value of options overlay strategies increase when interest rates are low, as a way of offsetting declining yields on bonds, CDs and money market accounts. Rates are nearing historic lows, with the Fed hinting at further easing. Additionally, to keep up with inflation, rising healthcare costs, and higher costs for energy and food, investors need to explore more creative options for enhancing portfolio returns. Now, is a great time to introduce alternative fixed income strategies to clients.

Adding to the current economic challenges, today's investors are becoming more sophisticated and asking more from RIAs, but options trading can be very complex. That's why most RIAs are not taking advantage of these types of strategies for their clients. These strategies are also underutilized because of the extra time, research and management required to execute successfully.

RIAs then have two options. Put in the extra time and effort or source an asset manager with a long history of success who can do it. Bottom line is that when executed correctly, the extra effort or fees can consistently boost returns for investors, making an RIA more successful. ■

Jodi Vleck is CEO and Founder of Beta Asset Management, an asset management firm focused exclusively on providing customized options overlay strategies to financial advisors and institutions.

Learn more at www.betaassetmanagement.com.

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Platform Integration: Quality Matters More than Quantity

By Steve Leivent
BLACK DIAMOND

Integration is one of those holy grails of technology that everyone aspires to or purports to deliver, yet it somehow remains elusive. Is it simply the ability to share data between two systems? Or to view data in one system through another? Or transmit data automatically rather than manually?

The dictionary defines integration as "combining into an integral whole," while an online tech glossary talks about creating "one large system" from a number of subsystems. This holistic concept—that system integration creates, in effect, a single system—is where we believe many wealth management platforms fall short.

Investment advisors are still looking for deeper integrations to get the most out of their technology stack. Solution providers are racing to build connections to parallel technologies and custodians in order to claim integration, and today's application programming interfaces (APIs) make it easier than ever to connect. Advisors, however, should question these claims. Many of these connections are very limited in functionality. Do they really add value, save time or improve client service? Or are they just there to check a marketing box? Quality matters more than quantity, and depth is more important than breadth. Better to have a few functionally deep integrations than a large network of superficial connections.

Single sign-on has become price of entry—nearly every competitive platform provider either offers it or is close to achieving it. Simply having access to complementary systems through a core system is no longer enough. Being able to see, for example, real-time cash balances through your portfolio management system certainly has advantages, but the greater advantage comes from being able to leverage that data automatically in a rebalancing component. That is true integration.

Let's think of integration from the user's perspective: what does an advisor want or need to accomplish? How can integration make it easier and more efficient? Picture an advisor moving across a continuum from prospecting, acquiring and onboarding a client through developing a financial plan, then turning that plan into an investment strategy that takes the client's risk appetite into account. The advisor then implements that strategy in the form of a portfolio, which requires continual monitoring and occasional adjustment. All the while, the advisor is communicating with the client, reporting results and tracking against the plan. Virtually every step in this lifecycle is performed by a different software component—CRM, financial planning, risk analysis, portfolio construction and rebalancing, accounting and reporting, custodial interfacing, and client communication via an online portal. Yet from the advisor's perspective, each process should work seamlessly with all others as part of a single system. The less work on the advisor's part to make that happen, the greater the overall efficiency and productivity.

Delivering on that vision requires more than simply opening APIs to the world. Complementary solution providers need to work in concerted partnerships and commit to deep and meaningful integration that adds value for the advisor. When you're evaluating platforms, look beyond the names and numbers of integration partners. Ask how specific integrations are going to help your business. ■

Steve Leivent is Senior Vice President of SS&C Advent's Advisory business unit.

Learn more at blackdiamond.advent.com.

State Income Tax Planners Soak up Victory of *Kaestner* Opinion

By Daniel Hauffe
BLOOMBERG TAX

With *Wayfair* in our rearview mirror, the U.S. Supreme Court focused on another state tax nexus issue in *North Carolina Department of Revenue v. The Kimberley Rice Kaestner 1992 Family Trust*, namely whether the Due Process Clause prohibits the taxation of trust income based solely on the residency of an in-state beneficiary. The U.S. Supreme Court affirmed the North Carolina Supreme Court holding that taxing a trust on its undistributed income based solely on the residency of the beneficiaries violated the Due Process Clause of the Fourteenth Amendment.

In summary, North Carolina taxed a trust's accumulated income where the settlor was a New Yorker, trust was governed by New York law, trustee was in Connecticut, trust asset custodians were in Massachusetts, and discretionary beneficiaries were North Carolina residents (settlor's daughter and daughter's children). The trustee had absolute discretion to make income distributions to such beneficiaries, but did not make any distributions during the tax years at issue. Despite being scheduled to terminate when the daughter reached the age of 40, the trustee transferred trust assets into a new trust in lieu of an outright distribution. As an aside, query whether the trustee would have violated a breach of fiduciary duty if the trustee did not act in the beneficiaries' best interests by making such transfer.

The U.S. Supreme Court found that the residency of in-state beneficiaries alone did not supply the minimum connection under the Due Process Clause to sustain North Carolina's tax on undistributed trust income on the trust where the beneficiaries had no right to demand trust income or otherwise control, possess, or enjoy trust assets because the trustee had absolute discretion over trust distributions.

Importantly, the Court caveated that this holding does "not imply approval or disapproval of trust taxes that are premised on the residence of beneficiaries whose relationship to trust assets differs from that of the beneficiaries here." The Supreme Court apparently leaves open the possibility that small factual changes could have swayed the Court. Query whether the Court would have ruled otherwise if trust distributions were subject to a HEMS standard.

In the amicus curiae briefs, some parties were concerned that trustees would accumulate income in trust for decades and have the beneficiaries move to states without income taxation, resulting in trust distributions free from state taxation altogether. One person's "abusive tax loophole" is another person's "permissive state tax planning."

As states pursue potential revenue sources more aggressively, wealth planning professionals must defensively study and understand the tax consequences of trust situs, trusteeship (fiduciaries, co-trustees, trust directors, etc.), and beneficiary location. Then, professionals must offensively tailor trust provisions to address each client's non-tax issues without compromising beneficial tax positions or unknowingly subjecting the trust to taxation in multiple jurisdictions. Despite the *Kaestner* holding, many professionals eagerly await the possibility of a *Fielding* opinion. With a more diverse fact pattern, the *Fielding* case may provide a clearer path to paying tax deficiencies and requesting refunds where the basis for state taxation of trust income is too attenuated under the Due Process Clause. ■

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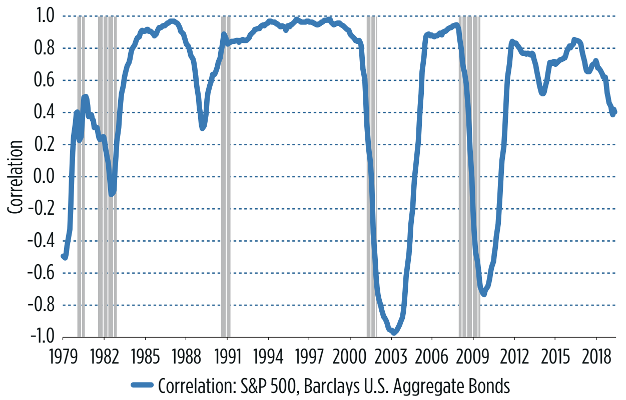
Lockwood Economic Outlook: Ballast

By Matt Forester
BNY MELLON | PERSHING

Some three years ago, as the bellwether 10-year U.S. Treasury note rate approached a low of 1.3579% (July 8, 2016), some market commentators had begun to worry that the relationship between stocks and bonds had changed. We see the correlation structure as still intact and valuable, just at lower interest rate, growth and inflation levels.

Fixed income plays many roles in a portfolio, which may include: risk mitigator, income, inflation hedge and capital preservation. Today, as forward-looking indicators begin to warn of increased risk of a generalized economic downturn, we believe the primary focus should be on the role fixed income plays as a diversifier and potential risk mitigator. Like ballast that helps to keep a sailing ship aright in rolling seas and stormy weather, high-grade fixed income may play the same role as a stabilizer in a global diversified portfolio.

Ballast: Bond and Stock Correlation Dives During Recession



Sources: Bloomberg and U.S. Treasury Department. Data through May 2019. Visual created by Lockwood Advisors, Inc. Indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results.

The correlation structure of stocks and bonds may serve to balance a portfolio during periods of economic stress. This is graphically depicted in the chart below. We calculated a rolling 3-year correlation between the S&P 500 Index and the Barclays U.S. Aggregate Bond Index.

The shaded areas represent recessions according to the National Bureau of Economic Research (NBER). This chart shows the time period from 1979 to present. It begins near the double recession in 1980-1981 (officially, the NBER dates those recessions as occurring from January to July of 1980 and July of 1981 to November of 1982). Up until the Great Financial Crisis in 2008-2009, this had been the most calamitous decline in output for the U.S. economy since the Great Depression. This series begins near the peak in U.S. interest rates. For reference, the 10-year Treasury note peaked at 15.842% on September 30, 1981.

Correlations are again beginning to trend lower after a long stretch of elevation. Take a shifting correlation structure, add an inverted yield curve and marry them to dramatic declines in the 10-year Treasury note yield (from 3.2374% on November 8, 2018 to 1.9936% as of this writing). Combined, these may signal that the bond market believes monetary policy has been too tight and that there are substantial risks to growth.

For the past 38 years, bonds have provided the ballast for riskier assets. The relationship between bonds and stocks still looks solidly intact. ■

Matt Forester is Chief Investment Officer of Lockwood.

How Much is Left in the Tank?

The economic and market cycle as we move through 2019

By Tim Holland
BRINKER CAPITAL

As our bull market moves further into its record-setting 11th year and our economic expansion closes in on a record 10th birthday, investors are increasingly concerned the market and the economy are due to run out of gas. Brinker Capital is the first to acknowledge at some point we will confront a bear market and a recession. However, the market and economy don't know if they have been rallying and expanding for a day or a decade. Said differently, the calendar is meaningless. What ultimately drives risk assets and the economy is monetary policy and fiscal policy and fundamentals. And on those fronts, after a bumpy end to 2018 and some question marks about 2019, we see more good news than bad.

As we moved into 2019, we saw the primary risks to the market and economy being the Federal Reserve (Fed) raising interest rates and unwinding its balance sheet too aggressively and the US/China trade discourse deteriorating to a point where corporate sentiment and spending collapsed. Well, as we hoped, the Fed adopted a patient approach to interest rate and balance sheet management and the US/China trade discourse, while volatile, continues to move in a generally constructive direction, with both nations, as of now, committed to a negotiated settlement. Our base case is that the US and China solve for trade this year. Due to those developments, as well as a very accommodative US fiscal policy, we see the near-term risk of a US recession or bear market as quite low.

We can also paint an optimistic picture for the market and economy longer-term. Simply put, US corporations are flush with cash and have underinvested in productive assets for years. We think it is likely corporate investment will accelerate, and with it worker productivity. This should drive both earnings and wages higher, but in a manner that doesn't spark meaningful inflation. As that dynamic unfolds, our long-lived economic expansion and bull market should both continue to move further on down the road.

Then there are politics, the deficit, and debt. Politics can be additive to market volatility but should have no bearing on economic fundamentals (remember, politics and policy are very different things), while we see near-term concerns over US deficits and debt as misplaced. As a point of reference, when Ross Perot made our debt the centerpiece of his 1992 Presidential campaign, debt outstanding was $4 trillion, US GDP was $6.5 trillion, and the S&P 500 Index (S&P 500) was valued at 420. Today, debt outstanding is $20 trillion,

GDP is $20 trillion, and, as of March 31, 2019, the S&P 500 reached 2,834, a gain of approximately 1,000% since the 1992 Presidential election. Our country's borrowing costs are manageable and our annual deficit as a percentage of GDP is reasonable. We don't see US debt or the annual deficit as a near-term risk to growth or risk assets.

As of now, monetary policy, fiscal policy, and economic fundamentals are all supportive of an optimistic view toward the economy and risk assets. As always, we will monitor policy developments and economic fundamentals closely to see if it's necessary to make any changes to our economic and market outlook moving forward. ■

Tim Holland, CFA, is Global Investment Strategist at Brinker Capital.

Partner Perspectives: Markets at Mid-Year

CARILLON TOWER ADVISERS

Here are highlights of our thinking so far in 2019.

Federal Reserve Pivot

Eagle Asset Management Fixed Income Team: “We’ve never seen a Fed pivot that dramatically. The data suggested the Fed should have stood down on raising interest rates and selling assets, but nobody expected it in such a quick fashion. ...We don’t think the Fed is going to start hiking again. It would be difficult for bond yields to get higher, unless we see reacceleration of growth, but that’s not what the yield curve is telling us.”

Reams Asset Management: “The Fed has now played one of its key trump cards with this policy shift, essentially propping up the flagging equity market. The Fed thus has fewer levers to pull if we experience deterioration in economic fundamentals ...So if the Fed’s policy shift wasn’t enough to cause a meaningful follow-through in underlying fundamentals, what happens the next time we experience weakness?”

Market Volatility

Eagle Asset Management Small and Mid Cap Growth Team: “We are surprised by the frequency of shifts from a “risk-on” market to a “risk-off” market. Some of that has been driven by computer algorithms, but much of it has been driven by quick reactions to political and economic events or issues, such as tariffs on China; commentary from the Fed regarding inflation and interest rates; unemployment data and its impact on wages and overall inflation; and, rhetoric from Democratic presidential candidates about proposed policies.”

Interest Rates

Scout Investments Mid Cap Team: “The Federal Reserve needs to cut interest rates soon. As evidence of this we point to decelerating M2 money supply growth, a flattening yield curve, 2-year Treasury note interest rates far below the Federal funds rate, recent deceleration in the growth of cloud technology capital spending, and the slower U.S. Markit Composite PMI.”

Trade

ClariVest Asset Management: “Investors need to watch for signs of whether trade war tensions are beginning to hit overall consumer and business confidence in a way that actually causes consumption and investment to be materially pared back, as opposed to consumers and business managers having

worries, but still carrying on as usual.”

Cougar Global Investments: “Earlier this year, there was optimism about global growth picking up over the second half of 2019. That thesis now faces a test, primarily due to the escalating trade tensions between the U.S. and China. While we expect the U.S. economy to continue to grow at a moderate pace in 2019, we are keeping our eyes open for any signs of an incoming recession.”

Read our full mid-year outlook at *carillontower.com/partner-perspectives*. ■

Carillon Tower Advisers, together with its affiliates ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management and Scout Investments, offers a range of investment strategies and asset classes.

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Learn more at www.carillontower.com/partner-perspectives.

CARILLON
TOWER ADVISERS

Awaiting High Quality's Return

CARILLON TOWER ADVISERS/SCOUT INVESTMENTS

Carillon Tower Advisers asked key questions of its investment teams for its mid-year outlook and now shares these insights from James McBride, Lead Portfolio Manager for Scout Investments.

What has surprised you so far in 2019?
The speed and size of returns year-to-date was very surprising. Of course, once it became clear that the Federal Reserve was on pause, the risk of higher rates diminished, and this provided a backstop for stock prices. Another surprise is the continuation of growth outperformance versus value for both large- and small-cap assets. With a slower economy, investors are willing to pay a premium for growth. Over the quarter, growth valuations have risen faster than value and returns are ahead by 56% over the past 10 years. At the bottom of the financial crisis, value stocks outperformed growth. Additionally, lower quality companies continue to do well, whether measured by return on equity, non-earners, smaller small-cap stocks or companies with lower stock prices.

Non-earners continue to outperform in 2019. How does this impact portfolios you manage?
As of June, 42% of the companies in the Russell 2000® Growth Index are losing money. Sixty percent of small-cap growth software companies are not profitable, and 92% of small-cap biotech companies don't make money. Non-earners in the Russell 2000 Growth were up 26.6% during first quarter 2019 vs. 17.1% for the index. This has not impacted what companies we buy since we focus on profitable or nearly profitable firms.

Given IT's increasing weight in small-cap indices, how do you balance risk and adequate exposure to the sector?
We try to focus on somewhat less flashy tech. Technology is a large sector in the index but healthcare is actually a larger, growing sector, and industrials are just 1% smaller weight than tech. Recently the Global Industry Classification Standard split out the communications services sector, which is around 3.5%. We look at tech plus communication services as one group. Tech is an important sector of the portfolio since many longer trends we focus on have a technology component.

What factors should investors pay close attention during the rest of the year?
We continue to focus on higher quality companies with stronger balance sheets and earnings. We would expect this part of the market to eventually reward investors. Higher quality wins out in the long run, but the outperformance can be lumpy. We are researching new trends, and we continue to focus on the millennials' increased buying power in different parts of the economy.

Read our mid-year outlook at *carillontower.com/partner-perspectives*. ■

James McBride is Lead Portfolio Manager for the Small Cap Equity Team of Scout Investments, an affiliate of Carillon Tower Advisers.

Learn more at carillontower.com/partner-perspectives.

CARILLON TOWER ADVISERS

Scout Investments
AN AFFILIATE OF CARILLON TOWER ADVISERS

Grab Your Clubs, the Second Half of 2019 is a Ride Around the Golf Course

By Scott Kubie
CARSON GROUP

Navigating the stock market is like cruising around a golf course in a golf cart—both can be fun, but both are easily affected by factors outside of whoever is in the driver's seat. While technically the driver has control and a path has been paved, outside forces and limitations ultimately dictate where a golf cart goes and how fast.

The same factors come into play in the stock market. Keep these factors in mind as you maneuver the back nine—and the last six months of 2019.

1. Conditions will matter

The path a golf cart takes is heavily influenced by weather conditions. In the same way, the direction of the trade winds and Federal Reserve policy will affect the markets. Since 2008, policy has had an outsized impact on the financial markets. With the Fed normalizing policy and going on hold, it looked as if the fundamentals would play a larger role.

- Trade policy has introduced significant uncertainty as the threat of tariffs on numerous partners has raised risk and made the value of global supply chains less certain.
- The collapse of the U.S.-China negotiations suggests global trade issues will remain volatile. Even if a deal is reached, expect the relationship to remain volatile.
- Trade uncertainty has contributed to a globally slowing economy. Whether in the U.S. or Brexit, policy uncertainty has slowed economic opportunity.

Expect the Fed to provide some support this year, but not as much as the market suggests.

2. Golf carts only go so fast

Golf carts can accelerate quickly, but their maximum speed is limited. Markets will exude a similar experience of sharp surges after slowing, but valuations and risk will limit its top speed. The forward P/E is a little over 16 times for the S&P 500. That seems close to fair value for this market.

The uncertainty from trade, policy and the next election cycle will limit the market's ability to surge to large gains. There'll be periods of sharp acceleration, but extrapolating those periods into the future ignores the structural factors inhibiting growth.

3. Crowded courses slow the cart down

Parts of the market are showing some signs of crowding. For years, the dominant market narrative has been disruptive entrants—technology and social media companies primarily based in the U.S.—but risk fissures are developing.

The MSCI USA has been 30 percent more volatile than international markets over the last year. In the U.S., value stocks trade at nearly half the price-to-sales ratio of growth stocks. The power of disruptive companies and the strengths of the U.S. system shouldn't be ignored, but investors should be aware they aren't the only ones who have caught on to these factors.

4. High risk golf makes for a bumpy ride

Aggressive driving can lead to risk. Given the economic and policy environment, current valuations, and crowded trades, pushing the risk to the maximum level will likely create a much bumpier ride without much reward in speed.

Make sure your investments allow for some margin of error given the risks. Pursue some key insights—but do so from a foundation of solid diversification and risk management.

Your round is more likely to produce a better score if you do. ■

As Senior Investment Strategist, Scott Kubie is responsible for leading investment strategy at Carson Group.

CARSON

Learn more at www.carsongroup.com.

The Neglected Generation

By Donnie Ethier
CERULLI ASSOCIATES

Firms are hyper-focused on the Millennial generation, but many are overlooking Generation X. The collective investable asset base of Generation X ($8.6 trillion) is currently more than four times larger than that of Millennials ($1.9 trillion). Moreover, Gen X and Baby Boomers (i.e., children of the Silent Generation) stand to inherit the most significant share of wealth transferred in the coming decades.

For segmentation purposes, Generation X is a unique group, especially if viewed in two distinct segments—the older and the younger cohorts within the group. For many firms, these investors can fit within existing initiatives created for Baby Boomers or in reaction to the demands of Millennials.

Like a younger Baby Boomer, the older half of Gen X investors (i.e., ages 43 to 52) are not only approaching prime wealth accumulation years, but their economic concerns and trust in firms are essentially identical. These investors have accumulated significant assets and are primed to inherit more. They may also be facing significant life events such as caring for multiple generations, college planning, and large purchases (e.g., second homes).

Financial planning services that address Baby Boomers' core goals may translate seamlessly to older Gen-Xers, including cash flow, insurance, and retirement services. Approximately one in five Gen-Xers and Baby Boomers took a 401(k) loan in the last three years. "Funding basic spending needs" and "because it appeared as the best option" are commonly cited motives. In most cases, this indicates a lack of non-retirement savings and professional guidance. Without better preparation, meeting goals will be challenging.

When choosing an advisor, Gen-Xers in their 40s emphasize the importance of transparent interactions, prompt replies, and advisors taking the time to fully understand their needs. However, they represent an inflection point for the industry—41% say they need more investment advice, but this rate declines at age 50 (38%) and plummets to 22% by age 70. This reaffirms that, while the industry's focus on older investors is understandable, the space has become somewhat saturated. Takeover opportunities always exist for advisors, but the key is to develop relationships with these approachable investors before other advisors do.

Gen-Xers also continue to express a willingness to consolidate financial providers and relationships, especially as wealth increases. Nearly two-thirds of high-net-worth Gen X investors recognize the potential value in doing so, but there is a disconnect between their willingness and taking action. Cerulli recommends that firms continue to round out their digital capabilities without sacrificing active and passive solutions, impact investing, charitable giving services, and at least consider relationship- or enterprise-based pricing. The value in consolidating needs and assets must be clear.

Household Feels They Need More Investment Advice Databank, YE 2018

Household Needs More Advice	Generations: Millennials	**Generation X**	Baby Boomers	Silent and Greatest Generations	All Households
Agree	52.7%	**42.1%**	30.4%	19.4%	33.8%
Neutral	29.7%	**29.9%**	32.5%	35.7%	32.1%
Disagree	17.5%	**28.0%**	37.1%	44.9%	34.0%

Sources: Phoenix Marketing International, Cerulli Associates

Analyst Note: Households were asked how much they agreed or disagreed with the following statement: "I find that I need more financial and investment advice than I have in the past."

In contrast, younger Gen-Xers (i.e., late 30s) tend to resemble Millennials, but with more assets.

Interestingly, these younger investors in their 30s are the most likely group to say they need more investment advice, but just 13% report being advisor-directed. Nearly half (44%) define themselves as being strictly self-directed. However, much like Millennials, they seemingly recognize the potential benefits of professional guidance, but their hesitance to engage advisors is a substantial obstacle.

Rather than approaching these households with asset allocation services, the initial strategy may be cash flow management and goals-based planning. They comprehend the value of getting, and remaining, on track. Given their general reluctance to hand over control to advisors, there may also be opportunities to explore alternative pricing models, such as hourly fees or fee-for-planning structures. ■

Donnie Ethier is Director of Wealth Management Research & Consulting. He leads consulting engagements and research initiatives as it pertains to Cerulli Associates' intermediary distribution capabilities.

Equities to Endure Volatility as Economy Slows, But Likely to Rally into 2020

By Jeffrey Schulze, CFA
CLEARBRIDGE INVESTMENTS

Despite a June snapback, the equity selloff may not be over as participants are focusing mainly on the Fed's reassurance that it will stimulate if the outlook deteriorates and the resolution of Mexican trade-related issues. We believe the S&P 500 Index could see further downside due to a disappointing Q2 GDP print. This would be payback for a weaker than headline Q1 number with mean reversion for inventories, trade, and government spending. The lagged effects of Fed tightening could also be a headwind as it usually takes 12 to 18 months to fully digest the rate hikes and quantitative tightening that occurred in 2018. A weaker than anticipated Q2 corporate earnings season is another risk. Chinese data continues to point to weakness which will flow through to the revenue and earnings of U.S. companies. The S&P 500 has approximately 40% of revenues tied to international markets and is much more global than the U.S. economy. Next 12-month earnings revisions are typically the strongest in May, June and July, so expect reality to set in as 2Q reporting starts. Corporate margins are already under pressure as evidenced by last quarter's results. The inability to pass along the costs of higher tariffs and slowing global growth prospects may prove to be a painful concoction and the potential for misses and weaker guidance could validate lower equity price action.

We believe current economic data is more consistent with a slowdown rather than a recession. Based on the 12 indicators we follow, we see a 35-40% chance of a recession in the next 12 months. This is more consistent with historical growth slowdowns (1995/1998/2015) as opposed to recessions. Commodities are one of the first areas to come under pressure as trade war fears rise and commodities ranging from copper and lumber to chemicals, steel and crude oil have seen prices tumble recently. Increasing trade tensions could weigh on additional indicators, including credit spreads, retail sales, job sentiment, ISM new orders, profit margins and truck shipments. Other data suggesting a slowdown rather than recession include the fact that the back end of the yield curve (10/30 year spread) has steepened since the start of the year, strength in new home sales and muted consumer delinquencies. The U.S. economy remains expansionary and should continue to provide buying opportunities for stocks.

Several factors, in fact, could lead to a second-half rebound. The markets are now pricing in a 98% chance of a

cut in the Fed Funds rate by year end. The Fed is warming to a policy of moving towards a 2% average inflation instead of a 2% target, allowing overshoots during expansions. The drop in 10-year Treasury yields is already having a positive effect on housing and consumer spending. With regard to global demand, China is doing more on the stimulus front and could move toward stimulating their shadow banking and housing markets to goose growth later this year. This "shotgun" style stimulus is one of the key reasons the global economy rebounded aggressively off of 2016 lows. Trade issues and weakening economic data should make this more palatable versus continuing to pursue deleveraging. The potential resolution of trade issues would also be a catalyst for stocks. Our base case is for periods of positive rhetoric but expect negotiations to bleed into 2020. ■

Jeffrey Schulze, CFA, is ClearBridge's Investment Strategist and oversees capital market and economic research.

Read full disclosure here.

Learn more at www.clearbridge.com.

ClearBridge Investments

Why Advisors Need to Pay Attention to Direct Indexing

By Shana Sissel
CLS INVESTMENTS

Just like how mutual funds and exchange-traded funds ("ETFs") upended investment management, the newest, most high-touch form of investing—known as direct indexing—is likely to have a disruptive impact on the financial world. Direct indexing is the process of replicating a broad market index through the direct purchase of individual securities—rather than purchasing the index itself and a new tool that should be on the radar of all advisors and investment management professionals.

The rise of direct indexing means there will be less of a need to pick and choose among an array of thematic ETFs that might come close to an investor's portfolio goals but aren't a perfect fit. Direct indexing gives advisors the control and power to further customize portfolios to specific investor preferences. And what about the results? Direct indexing has the power to outperform both mutual funds and ETFs after taxes—with unique tax loss harvesting and gains deferral capabilities.

The customization that direct indexing provides can be extremely precise. If an investor wants to replicate the risk and performance of the S&P 500, while avoiding firearm sectors, including clean energy stocks, and maintaining capital gain restrictions, that is all possible with direct indexing. Mutual funds and ETFs simply don't have these capabilities.

The increased momentum behind direct indexing correlates almost directly with new enhancements to advisory firm technology, specifically in the retail space. Formerly, direct indexing was seen as an SMA strategy available to only high net worth investors. However, new retail-focused tools offer direct indexing at inexpensive price points—and with the same customization, reporting, and ease-of-use that institutional platforms advertise. Now more than ever before, advisors can use accessible technology to provide custom portfolios—accounting for sector/security, ESG, tax, and risk preferences—for many types of clients.

Direct indexing has the power to offer end-investors the truly personal portfolios they expect. And now, advisors can utilize accessible, cost-effective, and scalable technology to make this expectation a reality. ■

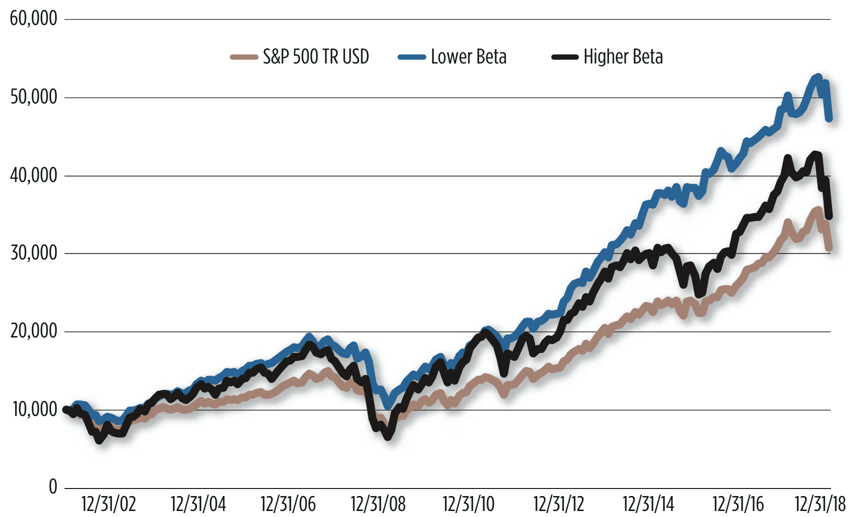
Shana Sissel is a PM at CLS Investments primarily responsible for working with the firm's tax managed strategies and alternative strategies. You can contact her at shana.sissel@clsinvest.com.

Leveraged Low Beta: Opportunities for Reduced Volatility and Enhanced Alpha in an Uncertain Market

By Jonathan Angrist
COGNIOS CAPITAL

As advisors continue to evaluate their portfolio allocations in the light of evolving macro conditions and the unprecedented 10-year bull market, many are considering reduced equity exposure for their clients' portfolios. However, for most investors, tactical portfolio shifts are to the detriment of investment returns and remaining fully invested provides the best opportunity for long-term portfolio growth.

Hypothetical Growth of $10,000 (January 2002- December 2018)



Advisors, then, may benefit from seeking out strategies that capitalize on the risk premiums built into lower beta stocks. Research shows that if the S&P 500 is split in half, low beta versus high beta, as a group, the lower beta half of the S&P 500 outperforms the higher beta half with reduced standard deviation and double the Sharpe Ratio. Further, lower than average portfolio beta provides an opportunity to add leverage to the portfolio; leveraged low beta leads to leveraged alpha.[1]

The evidence supporting the use of lower beta stocks in a portfolio is further amplified when additional factors are combined with low beta. As an example, seeking out lower beta, high-quality stocks that are currently trading at attractive valuations can create greater potential for a portfolio with a more attractive risk-adjusted return profile.

In the context of portfolio construction, the characteristics exhibited by low beta portfolios may allow advisors to maintain exposure to the equity market while reducing portfolio risk, as measured by standard deviation. In a market where the question is not if, but rather when, will the market pull back, advisors who are able to capture premiums as the market rises while prudently positioning portfolios for a market pullback will prove to be of the most value to their clients' long-term success. ■

Jonathan Angrist is President and Chief Investment Officer at Cognios Capital.

Disclosure: Views and opinions presented are for informational purposes only, based on current market conditions, and are subject to change without notice. Information provided is not a recommendation of any particular security, strategy, or investment product. Past performance is not indicative of future results.

1. Source: Cognios Capital; For purposes of this example, constituents of the S&P 500 Index are separated into groups (1) High Beta (2) Low Beta. The chart shows the performance of each group over the period shown with annual rebalancing and dividend reinvestment, and do not take into account the impact of management fees, trading costs or other expenses of investing.

COGNIOS® CAPITAL

Learn more at www.cognios.com.

Is Rising Consumer Debt Cause for Concern?

For securitized fixed-income investors, growth in overall debt is only part of the story.

By Jason Callan
COLUMBIA THREADNEEDLE

There's been a lot written lately about increased debt loads on the average U.S. consumer balance sheet. At nearly $13.5 trillion, consumers have assumed higher overall debt as the economy has recovered—but the growth has primarily stemmed from two much smaller areas of the market: student and subprime auto loans.

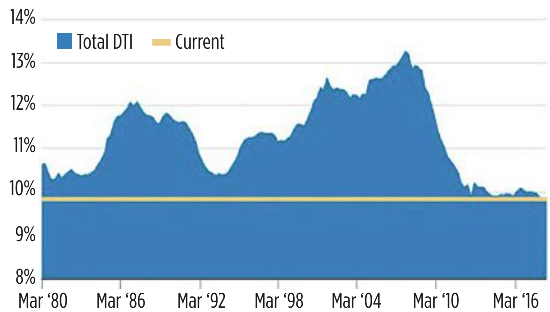
It's important to differentiate the debt we are broadly exposed to as investors from the debt largely on the government's balance sheet. Unlike the subprime mortgage crisis, which had ramifications across global financial markets because loans were packaged and sold into the market as securitized investments, the vast majority of student loans sit with the federal government. That's not to say that higher student loan balances won't negatively affect spending and ultimately GDP, but the overall quality of the *investable* securitized universe remains quite healthy.

But while overall debt levels have grown recently, total debt service ratios are at 40-year lows. The debt service ratio (DTI, or debt to income) measures an individual's ability to manage monthly payments. Tighter lending standards that came after the 2008 financial crisis have forced consumers into mortgage payments that better align with their income levels. Because mortgage debt accounts for 70% of overall consumer debt, lower mortgage payments have greatly reduced the overall debt burden on the U.S. consumer.

The intersection of low unemployment, wage growth in the 3%–4% range, rising median credit scores, flat-to-declining mortgage rates and a deceleration in housing prices has given way to a fairly drastic realignment of how much income the average consumer has to service their monthly mortgage payments. While non-mortgage-related DTI has returned to historical averages at 5.6%, mortgage-related DTI is at a four-decade low of 4.2%.

As active and nimble investors in the securitized market, we focus on those sectors where the underlying borrower profile is strong and the structure of the deal provides further support against possible delinquencies. The subprime auto loan market is small and avoidable, and the student loan market is largely in the hands of the federal government. We continue to find significant opportunity in the broad and diverse $10 trillion securitized market and believe the consumer balance sheet is in good shape. ■

Total debt service ratios are at 40-year lows



Source: Federal Reserve, Morgan Stanley Research. Data as of 12/31/18.

Jason Callan is Senior Portfolio Manager, Head of Structured Assets, Head of Core and Core Plus.

Learn more at www.columbiathreadneedleus.com/blog.

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Investors should carefully consider the investment objectives, risks, charges and expenses of a Fund before investing. To obtain a prospectus containing this and other important information, please call 888.800.4347 or visit columbiathreadneedleetf.com to view or download a prospectus. Read the prospectus carefully before investing.

In addition to the multi-sector bond strategies employed, the Fund may invest in other securities, including private placements. The Fund may have portfolio turnover, which may cause an adverse cost impact. Columbia Diversified Fixed Income Allocation ETF (the Fund) seeks investment results that, before fees and expenses, closely corresponds to the performance of the Beta Advantage Multi-Sector Bond Index.

Fixed income securities involve interest rate, credit, inflation, illiquidity and reinvestment risks. As interest rates rise, the value of fixed income securities falls. High yield investments possess greater price volatility, illiquidity, and possibility of default. International investments are subject to special risks, including currency fluctuations, and social, economic, and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks. Although the Fund's shares are listed on an exchange, there can be no assurance that an active, liquid or otherwise orderly trading market for shares will be established or maintained. One cannot invest directly in an index. Index Funds involve tracking error and other risks. In addition to the multi-sector bond strategies employed, the Fund may invest in other securities, including private placements. The Fund may have portfolio turnover, which may cause an adverse cost impact.

The Columbia Diversified Fixed Income Allocation ETF (the Fund) seeks investment results that, before fees and expenses, closely correspond to the performance of the Beta Advantage® Multi-Sector Bond Index.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable. Investors buy and sell shares on a secondary market. Shares may trade at a premium or discount to the NAV. Only market makers or "authorized participants" may trade directly with the Fund(s), typically in blocks of 50,000 shares. This fund is newly organized and does not have an operating history. The Funds are **distributed by ALPS Distributors**, Inc., which is not affiliated with CMIA. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.

There is no guarantee that the investment objectives will be achieved or that return expectations will be met.

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InsureTech Rising in Wealth Management

By Ron Alexander
CRUMP LIFE INSURANCE SERVICES

Across wealth management, digital processes are streamlining work. Insurers, however, have notably lagged behind other companies. Emerging "insuretechs" are closing the gaps and driving positive change.

Digital Clients

We Are Social /Hootsuite's "Digital in 2019" report shows of the U.S. population:

- 95% use the Internet
- 70% use social media (155% the global average; 87% from mobile devices)
- 347 million mobile phone connections exist – more than one per person!

Smart phones are driving how we function. Under one percent of web pages were viewed from a phone in 2009 vs. 52 percent in 2018. The takeaway? Information and tools need to work from mobile devices…first.

Buoyed by mobile's "always on" connectivity, Americans spend six-plus hours daily using internet devices – many of which are connected 24/7 and are tracking activity. In 2019, Statista.com reported nearly 27 billion connected devices worldwide, projecting 75 billion by 2025.

Whether phones, watches, thermostats, or new cars, devices are collecting immense data. According to Forbes.com, it is estimated 90 percent of worldwide data has been collected in the last two years! Despite this volume, consumers expect companies to keep it straight across every channel, all the time.

Changing Industry

How do evolving digital consumers, as well as availability of big data, impact life insurance?

First, 87 percent of consumers research online before buying, according to LIMRA. However, only 29 percent want to purchase entirely online, with 71 percent wanting an advisor conversation pre-purchase.

Many insurers are already in the market with data-powered accelerated underwriting programs, offering streamlined processes to eliminate collection of health verification evidence. For qualifying applicants, the buying experience is simpler and faster than traditional methods. However, the industry has a long way to go as most transactions still take weeks versus minutes.

InsureTech Innovation

Some insurance incumbents are fast-tracking innovation by partnering and/or investing. Fintech Global reported global insuretech investment in 2018 totaled $3.18 billion. This capital, combined with digital consumers, evolving sources of data, and the industry's slow pace of change, creates a perfect storm for innovation.

Innovation impacts nearly every point in the traditional value chain, but at least three insuretech-enabled platform types are transformational and using Application Programming Interfaces (APIs) to 'plug and play' with other industry participants: 1) Instant Decision Term; 2) Robo-Advice; and 3) In-force Management.

Takeaway

Today's consumers are looking for a streamlined digital experience coupled with the option for professional advice. Successful wealth management firms will be those that can combine traditional models with emerging solutions to create integrated ecosystems, delivering better and consistent experiences across touchpoints. The net result...more consumers getting the insurance coverage they need and more families being protected.

See additional details here. ■

Ron Alexander is Senior Vice President of Direct-to-Consumer Services & Digital Solutions for Crump, leading the firm's online and direct-to-consumer services platform supporting distribution of life insurance and related products through Crump's producers and accounts, and he brings prior experience with high-tech and financial services business leadership.

Crump Life Insurance Services, a leading third-party distributor and service provider of insurance and retirement products, is part of BB&T Insurance Holdings, Inc., the world's fifth largest insurance broker. Crump supports the distribution of life, annuity, long term care, disability, and health products with the industry's premier sales and back-office support and technology services.

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The Great Opportunity for Investment Programs

By Valorie Seyfert
CUSO FINANCIAL SERVICES

The Opportunity. We are on the precipice of the greatest opportunity the wealth management industry has ever had. In the next 25 years there will be $68 trillion of wealth moved from one generation to the next. That alone is a huge opportunity. At the same time, more people see the value of working with a financial advisor, BUT there are fewer advisors in the workforce. So there is both an increase in demand and a decrease in supply. Put that all together with some simple math: $68 trillion over the next 25 years + more people wanting to work with an advisor + less advisors to work with them = the largest opportunity in our lifetime.

$68 trillion over 25 yrs. + ↑ demand + ↓ # of advisors = Once in a Lifetime Opportunity

Just looking at estimated numbers reveals the incredible opportunity to expand how many clients we serve and the assets we can gather as a result. According to NCUA, credit union membership has risen nearly 21 percent from Q1 2014 (97.1 million members) to Q1 2019 (117.3 million). Estimating those 117 million members range in age from 20 to 80 years old, we get a 60-year span. If you project that 1/60 of the members will reach retirement age each year, you get 1.95 million members retiring annually. According to an October 2017 Government Accountability Office study, the median retirement savings for Americans aged 55-64 was $107,000.

The math looks like this: 1.95 million x $107,000 = $208,650,000,000.

That's **two hundred and eight billion six hundred and fifty million dollars annually. A tremendous opportunity no matter how you look at it!** It's the opportunity to offer the right solution at the right time: when your members take control of their retirement dollars. It represents the prospect of helping thousands of clients and dramatically increasing revenue for financial institutions.

The Challenge: Custom and On-Demand is Required

The challenge with capitalizing on this golden opportunity is financial advisors need the right capabilities to serve their clients how they want to be served. Investment programs have to meet their clients' new expectations. If you keep hearing "quickly-changing consumer demand," that's wrong. It's not quickly changing; it has already changed. Consumers already

expect more from their services. They are receiving customized, on-demand, transparent, real-time, and easy services delivered from companies like Amazon, Uber, GrubHub, Rover, and more. That's what they expect.

Investment clients want the flexibility and personalization in their investments that they get everywhere else, including the ability to work with an advisor combined with the empowerment that comes from customized, on-demand technology. They want benefits such as:

- Instantly communicate with their advisor via text
- See real-time investment portfolio data at the click of a button
- Send documents digitally and securely; avoid branches
- View historical data of all investments

The Future is Now

These features are simple examples of how financial advisors and investment programs need to deliver investment services to their clients. Don't wait for these capabilities to come "soon." Your customers aren't waiting. Talk to your wealth management firm today to get up to speed. ■

Valorie Seyfert is the president/CEO and co-founder of CUSO Financial Services, LP and Sorrento Pacific Financial, LLC, sister wealth management firms specializing in financial institutions for more than 20 years.

Learn more at cusonet.com.

Meet Me in the Middle

By Bill Zox
DIAMOND HILL

Writing on these pages last November, I noted that all major asset classes were flat to negative on the year and concluded that high yield bonds stood out with a yield-to-worst of 7.3% on the ICE BofAML US High Yield Index. From late November through June 20, each asset class has generated positive returns: High Yield Index (8%), S&P 500 (14%), Russell 2000 (6%) and Bloomberg Barclays US Aggregate Index (8%).

In 2018, rate hikes and quantitative tightening were key drivers. The Fed was trying to slow the economy down to engineer the elusive soft landing. It was logical that interest rates were rising and price-earnings ratio were declining, causing all major asset classes to be flat to negative.

So far this year, all major asset classes are once again moving in the same direction—in this case, sharply positive. But unlike 2018, the performance is not logical. The massive rally in Treasuries is discounting something like a 50% probability of recession over the next 18 months. In contrast, the strength of stocks and high yield bonds suggests a low probability of recession.

I will start by making the counterargument. Maybe 3% is closer to the ceiling on the 10-year Treasury yield rather than the floor. And maybe the equity risk premium—the additional return required by an equity investor over the risk free return—should be lower than it has been historically. These factors would suggest that the price-earnings ratio on stocks should keep going higher even from today's level.

But a recession over the next 18 months would likely push the price-earnings ratio lower rather than higher. Even in the absence of recession, stock investors are baking in a material increase in earnings in the second half of the year that could be derailed by trade wars among other things. While stocks were dramatically undervalued on Christmas Eve, at this stage, my judgment is that price-earnings ratio expansion is unlikely to offset potential pressure on earnings.

At the same time, my judgment is that Treasuries are discounting too high of a probability of recession over the next 18 months. The primary risk stems from the trade wars. While I would have expected the financial markets to compel more progress towards a resolution, the presidential election cycle should take over and lead to policy that reduces the risk of recession. This would likely lead to a backup in interest rates and lower Treasury prices.

Why haven't financial markets compelled more progress on trade wars? I think the Federal Reserve's pivot-which quickly morphed into a full capitulation to the financial markets-has, for now, offset the trade issues.

High yield bonds have benefitted from the decline in interest rates and the increase in equity valuation. If both Treasuries and stocks are under pressure, high yield bonds will be as well.

Making dramatic changes to asset allocation based on views like this is a difficult way to invest. But investors should know when to focus more on making money and when to focus more on not losing money. If stocks and Treasuries do meet somewhere in the middle, then the focus should be more on not losing money. ■

Bill Zox, CFA, is the CIO - Fixed Income & Portfolio Manager for Diamond Hill, an independent investment management firm headquartered in Columbus, Ohio that provides investment strategies that deliver lasting value through a shared commitment to our intrinsic value-based investment philosophy.

Read disclosure here.

Learn more at www.diamond-hill.com.

Why U.S. Large Caps, Growth Stocks, and Cyclicals Remain in the Driver's Seat

By David Mazza & Inkoo Kang
DIREXION FUNDS

Tariffs, Trade and Tweets

An apt Bloomberg headline in May referenced that investors were awaiting the next tweet from President Trump to help set market direction, a trend which has only continued since.[1] Investment sentiment throughout many recent months has been dominated by the impact that additional tariffs and ongoing trade wars would have on an already late-cycle economic expansion, but what has really driven the daily tone has been tweets and their associated headlines. This comes on the back of the best first-four-month performance in decades across a wide range of indices.

Yields are Yielding

More troubling than the trade war headlines may be the sizable declines in yields around the globe, since the bond market is telling stocks that the growth picture will be less rosy going forward as economic data, such as manufacturing purchasing manager indexes across major economies, have fallen this year, with leading indicators not showing signs of bottoming. The once seemingly Teflon U.S. has seen macroeconomic data slip as well. What's worrying investors is that inflation expectations continue to decline and stand at two-year lows under a widely followed measure calculated by the Federal Reserve Bank of St. Louis.

Amid this focus on largely unsubstantiated progress or setbacks on the China-U.S. trade talks, U.S. corporations posted better than expected Q1 earnings, and the recent past may be prologue for an increasingly uncertain macro environment.

Central Banks to the Rescue

At this stage, the market is expecting major global central banks to begin easing, even though many never fully normalized their policy after years of extraordinary monetary measures. With limited firepower, we believe that the bar to ease will be higher than the market is currently pricing. Outside of a relatively contained group of risky borrowers, the credit environment remains benign for the time being. In the U.S., the jobs market has been robust, making the Federal Open Market Committee's job complicated as it strives not to seem politicized.

Where's the Opportunity?

Overall, we believe that investors need to remain on their toes as the path forward in 2019 may be increasingly detached from the still positive fundamentals.

Soon, another earnings season will be front and center. Current expectations point to weak earnings in Q2 and Q3. We expect that a large number of upside surprises will provide a boost to currently depressed sentiment, but for those firms with weak guidance, markets will likely punish them with performance worse than historical averages.

On a relative basis, the U.S. remains favorable to international developed markets. Within the U.S., large caps, growth stocks, and cyclical sectors are positioned to remain in the driver's seat thanks to their increase in quality bias and favorable earnings. While these views are mostly consensus and some stocks are showing signs of stretched valuations, like the U.S. relative to international and U.S. growth relative to value, a meaningful catalyst in the form of higher rates or improved economic data remains fleeting in the back half of 2019. ■

David Mazza is a Managing Director and Head of Product and Inkoo Kang is a Vice President and Product Strategist at Direxion.

Investing involves risk including possible loss of principal. Please click here to see the summary and full prospectuses for a more complete description of these and other risks of the ETFs.

Distributor for Direxion Shares: Foreside Fund Services, LLC.

1. www.bloomberg.com/news/articles/2019-05-23/waiting-on-trump-put-stock-traders-turn-impatient-as-rout-grows

Learn more at www.direxioninvestments.com.

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Remote Work Is the New Normal: It's Time for Firms to Embrace It

By Mark Tapling
DOCUPACE

A 2019 survey of 15,000 businesspeople by office services firm IWG found that over half of global employees work away from HQ at least 2.5 days a week.

The business case for flexible work policies is well-established, with increased productivity being the most eye-catching benefit. Even PwC has instituted a policy of "flexible work for everyone" that their U.S. People Experience Leader claims results in a "happier, healthier, and more productive workforce."

In today's climate, perhaps the most important benefit of flexible work is felt in recruitment. In the IWG survey, four out of five respondents indicated that when faced with a choice between an employer who offers flexible working and one who doesn't, they'd choose the former. When the U.S. unemployment rate is at a 50-year low, businesses need to play every card in their hands to get the right people on board.

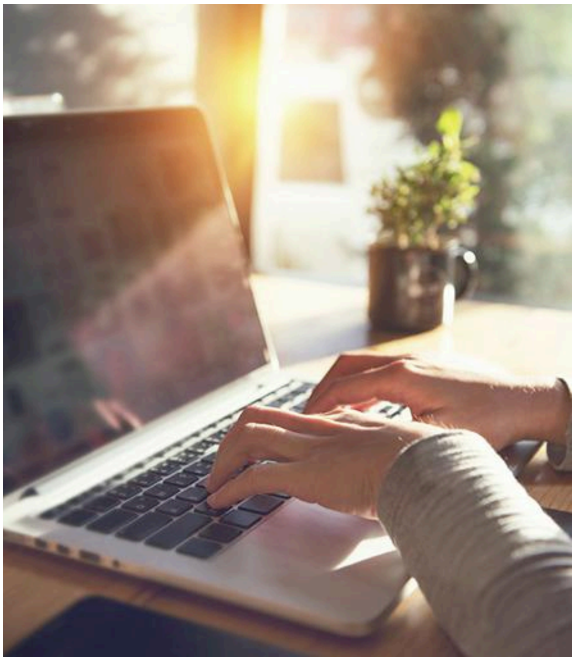
Which brings us to the wealth management industry. In my experience speaking with leaders at broker-dealers and RIAs throughout the U.S., it's clear that wealth management firms are behind when it comes to enabling flexible work.

It's time to embrace it. To attract the best employees and advisors, wealth management firms need to make it possible for everyone to work remotely.

There are plenty of reasonable excuses to be made. The regulatory environment renders many of the popular cloud tools that have enabled remote work in other industries off-limits to wealth management firms. On the other hand, throwing your papers in a briefcase and taking them home can lead to different compliance issues. The sheer amount of printing, signing, faxing, and mailing that takes place in an average employees' day is enough to make remote work unfeasible—last time I checked, they don't have fax machines at Starbucks.

Thankfully, new technology addresses these issues. Collaboration software with built-in SEC/FINRA compliance controls is available. Paperless processes that eliminate the need for printing, signing, faxing, and mailing forms enable advisors and back-office employees to work from anywhere with an internet connection (and increase productivity while they're at it).

Of course, overcoming these barriers is just the beginning of an effective flexible work policy. Firms also need to create a culture that supports working from home. That's a two-way



street—it means reducing the focus on presenteeism and long hours that has been an unfortunate reality in the industry, while also developing written rules that prevent employees from taking advantage of the policy.

One thing's for sure: remote work is here to stay. Wealth management firms should do everything they can to make remote work possible at their organizations in order to attract and retain the best employees and advisors. ■

Mark Tapling is CEO of Docupace. He has over 20 years' CEO experience in the technology industry with public and private B2B software companies.

Learn more at www.docupace.com/blog.

Docupace

Municipal Market Liquidity: Not a Completely Dry Subject

By Ashton Goodfield, Carol Flynn, and Robert Fogarty
DWS

Liquidity is an often-overlooked contributor to (or detractor from) total return

No one wants to pay too much to buy a security or to sell it at a price lower than its estimated value. The liquidity of a security can impact a transaction price, and transaction costs can hamper total return performance of an investment portfolio. The liquidity of municipal securities has changed over the past decade, partly as a direct result of the financial crisis. Some of the developments have improved the liquidity of munis, and others have caused liquidity to worsen. In this Muni Opinion, we'll review the unique liquidity aspects of municipals, how some liquidity factors have changed in recent years, and what you should know as you build your investment in municipal bonds. For the purposes of this piece, we're considering liquidity in two ways—the difference between the bid price and the offer price (bid-ask spread), and the ability to sell a position at the assigned market price. In addition, we'll address not only the liquidity of a specific bond but also the liquidity of a portfolio.

Long-time investors in munis know—this market is a different animal when compared to other fixed income asset classes such as Treasurys and investment-grade corporates. Yes, munis typically are solid credits, and the default rate for investment grade municipals is only 0.18% but credit quality isn't always a predictor of liquidity.[1] There are approximately one million outstanding municipal securities, and the chance of a specific security trading on a given day is about one percent.[2] Additionally, over 90% of the muni market does not trade in any given year.[3] No doubt, munis are a "unique" asset class.

For a number of reasons, muni liquidity is generally inferior compared to many other asset classes. In 2018, new issuance volume totaled just $388 billion for municipal securities compared to $1.376 trillion for corporate securities, according to the Municipal Securities Rulemaking Board (MSRB). Consider that the Bloomberg Barclay's Municipal Bond Index contains 54,251 items, while the U.S. Aggregate contains 10,374 items as of March 31, 2019. And of course, pricing is very different from a stock since the bonds aren't traded on an exchange and rely on over the counter (OTC) negotiation instead. These factors all contribute to liquidity challenges.

MUNIS VS. CORPORATES: A SIDE-BY-SIDE COMPARISON

	Municipal securities	Corporate securities
Market size	$3.8 trillion	$9.2 trillion
No. of securities	~1,000,000	~30,000
No. of issuers	~50,000	~10,000
Daily trading volume	$11.6 billion	$31.2 billion
New issuance volume, 2018	$388 billion	$1,376 billion
Default rates, investment grade-rated	0.18%	1.74%

Source: MSRB, Federal Reserve, SIFMA, S&P, Moody's and World Federation of Exchanges.

Why should you care?

Whether you buy munis directly or through an SMA or a mutual fund, you want to know the purchases and sales are at a price close to the value of the bonds. Why leave money on the table when buying or selling anything?

Mutual fund holders need to have confidence their fund's portfolio manager can efficiently manage the portfolio in times of inflows as well as outflows.

Read the full Muni Opinion report and disclosures at *www.dws.com/US/EN/resources/insights/market-insights/muniopinion-wm.pdf* ■

Ashton Goodfield, CFA and Carol Flynn, CFA co-head the Municipal Bond Department at DWS; Robert Fogarty, CFA is a Client Portfolio Manager with the company.

1. Source: emma.msrb.org as of March 2019

2. Source: MSRB, "Transaction Costs for Customer Trades in the Municipal Bond Market: What is Driving the Decline?" as of July 2018

3. Source: MSRB, Municipal Market Analytics

DWS

Learn more at www.dws.com.

The Dynasty Mid-Year Review: "All Along the Watchtower"

By Scott Welch
DYNASTY FINANCIAL PARTNERS

- The global economy remains non-recessionary but clearly decelerating, and ongoing trade tensions are beginning to have a tangible negative effect;
- US economic growth, interest rates, inflation, and earnings all remain expansionary. Wages and input prices are slowly increasing, but we do not see them as threats (yet) to continued expansion;
- Globally, inflation is not a problem, due to slow growth and relatively stable input prices;
- Global central bank policies remain uniformly accommodative, and this should be beneficial for risk assets;
- After spiking in May, but the market bounce-back in June brought volatility back down to repressed levels – investors so strongly believe that trade tensions will ease and central banks will remain accommodative that they have slipped back into complacency;
- The June rally raised US valuations back to high levels—once again, nothing looks cheap to us;
- For longer-term investors, we still like EM valuations relative to US or EAFE valuations;
- The US yield curve remains incredibly flat, as lower expected growth rates and investment flows combine with modest inflation expectations to "tamp down" the long-end of the curve (source: YCharts);
- At the end of June, the 10-year Treasury rate was trading just above or below 2.00%—its lowest level since Q3 of 2017 (source: YCharts);
- The yield curve has inverted if measured by the spread between 3-month and 10-year rates. At the end of June, there was a negative spread of roughly 11 basis points, and that spread has been negative for several weeks—its longest "inversion" in years (source: YCharts);
- The public credit markets continue to look expensive to us although, for now, investors seem to be fairly compensated for default risk;
- After drifting back lower over the course of June, both high yield and IG credit spreads remain incredibly tight by historical standards (source: YCharts);
- We remain concerned about high yield liquidity and the growing level of "covenant lite" bank loans. Additionally, more than 40% of non-financial investment grade debt is rated BBB. If and when we head into the next recession, there could be a liquidity crisis if more than a modest amount of this debt falls into non-investment grade territory (source: FocusEconomics);
- For investors who can access the private markets and handle some degree of illiquidity, we still believe there are better opportunities in the private versus public markets;
- Hedge funds generally are performing as expected and, given valuation levels for the traditional public equity and credit markets, there is growing investor interest in considering lower-correlated investment strategies;
- Oil prices may be affected by ongoing geo-political tensions between the US and Iran, but this is not yet in evidence;
- When we consider the <u>fundamental</u> drivers of market performance—economic growth, earnings, interest rates, inflation, and central bank policy—we remain generally constructive, but we have entered a new phase of the market cycle, and we expect increased volatility and periodic bouts of investor panic as we move through the year;
- With that in mind, we believe a heightened focus on quality, liquidity, and diversification is an appropriate course of action.

In summary, the word that is running through our head is *"asymmetrical"*. While the underlying fundamentals remain generally positive, the market increasingly is *"priced for perfection"* and subject to downside shocks if what's being priced in turns out differently than expected.

As Sergeant Phil Esterhaus used to say on the iconic 1980s TV cop show *Hill Street Blues*, "Let's be careful out there"… ■

Scott Welch, CIMA®, is the Chief Investment Officer and Chair of the Investment Committee at Dynasty Financial Partners.

Learn more at www.DynastyFinancialPartners.com.

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Gender-Lens Investing: How to Invest to Advocate for Women

By Kiley Miller
ENVESTNET | PMC

It is estimated that by 2020, women will control $72 trillion of wealth, or 32% of all global wealth, and will influence 70%–80% of all consumer purchasing. As women take on more financial decision making, investment products that reflect their perspectives will become increasingly important.

Research shows that companies led by women also perform better financially. In 2016, the Credit Suisse Research Institute analyzed companies where women occupied 50% or more of the leadership positions. The research found that sales growth, earnings-per-share growth, and return on assets were all higher than the broad universe of companies, and that debt/equity levels were lower.1 There is a clear economic opportunity to capitalize on advancement and equality for women.

Traditionally, gender-lens investing in public equities has focused on companies that have a higher representation of women on their boards. However, it is clear that the issue of gender inequality is systemic, and in order to make meaningful strides toward equality, we must begin to focus on fixing the systems that prevent women from advancing into senior roles. We must expand the analysis of a company beyond the number of women on the board, and begin considering what companies are doing to improve maternity and paternity leave programs, implement flexible work schedules, provide on-site day care and lactation centers at corporate offices, develop mentorship and development programs for women at various levels, and report on the gender-pay gap. The challenge is that companies do not disclose many of these metrics, because they aren't required to do so by law. Although there is mounting pressure from investors and consumers to disclose certain gender-related metrics, such as the gender-pay gap, those metrics can be vague, and calculation methodologies are not clear.

When constructing a gender-lens investment strategy, it is important to pinpoint which areas of women's empowerment are most important to the investor. The following five questions can be useful to consider:

1. Within the investment process, what gender-related metrics are analyzed in security selection and portfolio construction?
2. What measures does the manager take to engage with companies on the commitment to advancing women?
3. Does the manager support shareholder resolutions related to the gender-pay gap, gender discrimination, and women on boards? Does the manager vote against companies that are not taking adequate steps to empower and advance women in leadership positions?
4. Does the manager report on gender-related outcomes?
5. Is there diversity within the team that manages the strategy?

According to a report by Catalyst at Large and Veris Wealth Partners, assets under management with a gender-lens mandate grew 85% in the 12 months prior to July 2018, as global investors added more than $1 billion to a range of gender-lens strategies.2 The recent focus on gender inequality, as is evident from the "Me Too" movement, the UK's new regulations on companies to publish gender-pay- gap data, the approaching 2020 U.S. Presidential election, and the ongoing debate over women's reproductive rights, has mobilized many investors to align their investment dollars with their world view of gender equality. With a gender-lens investment framework, investors have an opportunity to be part of the solution by shifting capital toward companies that advocate for women to succeed at all levels of employment.

Read full article here. ■

Kiley Miller is Associate Portfolio Manager at Envestnet|PMC Impact Portfolios

1. Credit Suisse Research Institute's 2016 study "The CS Gender 3000: The Reward for Change."
2. www.veriswp.com/research/gli-bending-arc-of-finance-women/

For important disclosure information please click here.

Learn more at www.investpmc.com/impact.

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3 Steps You Can Take Now to Recession-Proof Your Business

By Brent Weiss, CFP®
FACET WEALTH

A recession is bound to happen. With the longest-running bull market in history now exceeding a decade since it began in March 2009, the question is just how soon an inevitable downturn will occur. A survey conducted in May by the National Association for Business Economics predicted that the risk will "rise rapidly" next year, with 60% of respondents expecting a recession to start before the end of 2020. Although this might be a daunting prospect, there are fortunately a few steps advisors can take to recession-proof your business:

1. Improve the financial health of your firm: Before the recession hits, consider focusing only on clients who fit your ideal client profile and drive higher quality revenue. If you operate on an AUM model and have some clients who don't significantly contribute to revenue, consider transitioning them to a firm that specializes in providing high-quality service to mass-affluent investors. This, in turn, will enable your firm to deliver a more targeted and valuable client experience while working with clients that provide higher quality revenue, creating greater profitability to help you navigate the upcoming economic downturn.

2. Focus on capital: Advisory firms can plan ahead by emphasizing both human and financial capital. Investing in the education, training and skill development of your employees not only improves your organization now, but can help prepare it for lean financial times. Meanwhile, growing financial capital enables your firm to have cash on hand and access to credit for future reinvestment. Essentially, financially healthy firms build a "war chest" filled with resources that will allow them to reinvest in their business when other firms cannot.

3. Create and utilize capacity: This concept goes hand in hand with improving the financial health of your firm. Create capacity in your business before a recession starts by committing to a preferred client base while the economy is still strong. This will free up time and energy for your advisors to pursue ideal prospects and provide excellent service to the firm's most valuable clients, a strategy likely to result in more, higher quality referrals as well.

Combining these three elements can help you change the narrative on recessions for your business, turning them from potential crises into opportunities for growth. Understand that being proactive is crucial to the success of a firm during economic downturns. Right now is your chance to prepare to be a healthy, top performing firm who views recessions as an opportunity to thrive. Be opportunistic when the majority of the industry is simply trying to weather the storm.

Remember, recessions are when prospects get worried and realize they need the help of an advisory firm, as well as when most advisors aren't proactive and their clients look for better options. Improving the financial health of your firm, focusing on capital, and creating capacity will help you build better client relationships and a business that can thrive in both good market conditions and bad. ■

Brent Weiss is co-founder and chief evangelist of Facet Wealth, a registered investment advisor creating growth and capacity in partner RIAs as a full-service referral destination and through revenue replacement opportunities. Facet uses next-generation technology to break the cost barrier of full financial planning for mass-affluent households.

Learn more at www.facetwealth.com.

Facet WEALTH

Why Use "Monte Carlo Analysis" for Financial Planning?

By Kendrick Wakeman
FINMASON

Most financial planners will use "Monte Carlo Analysis" to build financial plans for their clients. A Monte Carlo Analysis projects a client's financial picture into the future based upon the client's portfolio and various savings, spending, and life goals/circumstances. It is a powerful, flexible framework that provides an understanding of how the plan might turn out and facilitates decisions that are at least statistically informed. The key point of the analysis is to see if the client can make it through life, achieve all their goals, and go to room temperature without becoming destitute.

At the heart of Monte Carlo is a statistical engine that randomly moves your portfolio up or down each day in the future. When you string all the days together, it becomes one possible version of the future. The numbers it chooses conform to the expected return and expected volatility of the portfolio (think bell curve). Since the engine is moving the portfolio up and down each day, we can insert cash contributions and withdrawals whenever we like, increase or decrease them, and even simulate complex behavior, like contributing more in down markets and less in up markets. In short, using this approach to constructing a possible future is extremely flexible.

However, as flexible as this simulation method might be, a single random potential future is completely useless since it is highly unlikely that that particular version will occur. So, the process is repeated 10,000 times. Now we have 10,000 possible futures and there is a good chance that one of them will be close to what actually happens. By examining all of them, we can get a reasonably good idea of where we might end up and what an "average," "bad," and "good" outcome might look like. That is a valuable set of data that can help guide decision-making.

The glaring detail above is that the number simulations conducted is extremely important; with too few simulations, you may not have enough potential futures to make a reasonable estimate. In fact, you probably won't even get the same answer each time you run your analysis because the simulations are random and you won't have the Law of Large Numbers on your side.

For example, we ran three different Monte Carlo analyses: one with 250 simulated futures, one with 1,000, and one with 10,000. We then re-ran the same analyses another 99 times to see if the values would change. The portfolio was a simple $100,000 portfolio of the S&P 500. For each analysis, we posed a simple question: "what is the percent likelihood that I will be able to fund my full retirement?"

For the 250-simulations group, the answer ranged from 65% to 86%, even though each analysis used the exact same inputs. This inconsistency would be very difficult to explain to a client, in our opinion. At 1,000 simulations, the results still varied from 69% to 80% between runs. For many advisors, that is the difference between a failed plan and a successful one. Only at 10,000 simulations did we see the spread drop down to 2%, with re-runs coming in between 75% and 77%.

Thus, performed correctly, Monte Carlo Analyses give advisors a powerful tool for forecasting savings into the future, no matter the sequence of returns, savings patterns, spending patterns, and goals. ■

Kendrick Wakeman, CFA, is Founder and CEO of FinMason.

Learn more at www.finmason.com.

finmason

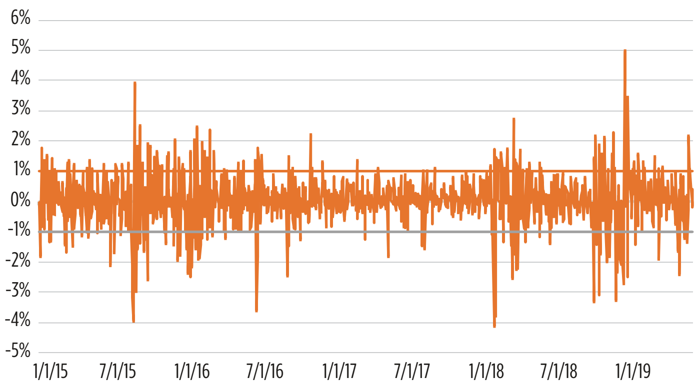
Anatomy of an Economic Slowdown—Economic Uncertainty Becomes a Headwind

By Lara Rhame
FS INVESTMENTS

The U.S. economy is slowing. The blistering pace of 2.9% growth in 2018 was unsustainable, and a deceleration closer to our potential growth rate around 2.0% has been widely expected. But softening data YTD and yield curve inversion have raised concerns that growth could slow more sharply than expected, or even contract, resulting in a recession. The speed, depth and anatomy of the slowdown now become the focus for markets.

We are not forecasting a recession, and still believe growth around 2% is the most likely scenario for 2019. However, with the rest of the world slowing meaningfully and uncertainties creeping in, risks to this forecast are accumulating. If history is any guide, investors should be in for a bumpy ride as economic growth cools.

Daily movements of S&P 500 Index



Data source: Bloomberg, as of June 14, 2019

Fueled by tax reform and increased fiscal spending, economic growth accelerated in each of the past three years. GDP rose from well below the Fed's estimate of long-run potential (1.9%) in 2016 to well above it in 2017 and 2018. The Conference Board expects GDP to increase at 2.6% in 2019 and 2.0% in 2020 while the Fed projects slower growth of 2.1% and 1.9%, respectively.[1,2] In other words, growth is expected to slow, but not crash.

The CEO Economic Outlook Index adds a layer of support to the softening growth forecasts. The Index has been decelerating for the past five quarters but remains above its historical average.[3] An optimist may look at the Index's recent movement as another data point confirming slower, but continued, growth for the U.S. economy. A pessimist could view today's significant economic uncertainty—regarding business spending and hiring, but also consumer spending, trade tensions and monetary policy, among other factors—as having begun to erode business sentiment, potentially leading to a hard landing or recession.

Early this year, markets recovered most of the ground they lost in Q4 2018. Looking back through the past 18 months, however, equity markets have seen multiple down-up-down moves, while price returns have been relatively flat. At the same time, daily volatility has spiked since Q4 2018, as the chart shows.

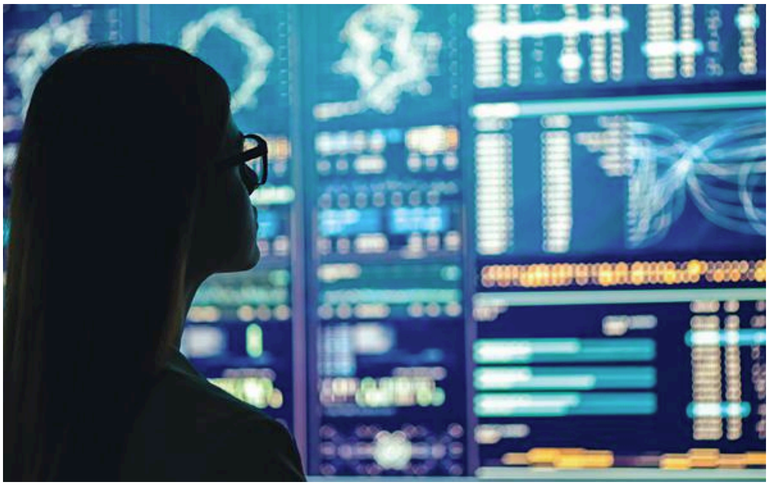
It will take time to decipher the ultimate arc of the slowdown. No matter the severity, though, economic slowdowns have typically proven challenging for investors and today's environment appears to be following suit. For equity investors, elevated volatility will likely remain the overriding feature of markets for the foreseeable future. Investors need to find ways to manage their portfolios through the economic slowdown and increasingly uncertain environment across traditional equity and fixed income markets. ■

Lara Rhame is Chief U.S. Economist at FS Investments, where she analyzes developments in the global and U.S. economies and financial markets.

1. The Conference Board, http://bit.ly/2ZyF7iL.
2. Federal Reserve Summary of Economic Projections, http://bit.ly/2XNkwGR.
3. Business Roundtable, http://bit.ly/2Ifq2ws.

Having the Best Tech Is Only Half the Battle for Financial Advisors

By Dean Cook
FTJ FUNDCHOICE



In the ultra-competitive financial services world, there have never been more high-quality technology options available to help financial professionals work more efficiently and differentiate their businesses.

While the range of powerful capabilities available, from trading to client experience and everything in between, are providing advisors and firms with the freedom of choice, the depth and complexity of many of these tools (which reasonably come at a cost) are also presenting a new challenge: How to ensure your firm is utilizing the tools to their fullest capacity and realizing the full value of your investment.

Depending on the size of your firm as well as your specific challenges and goals, you may have the resources and, quite frankly, the inclination to dig-in at a level required to master and manage your tech in-house. Other firms without the staff or time to devote may view outsourcing all or elements of their tech operation as a more viable option. And others still may do a bit of both.

While there's no single or definitive right answer on which approach is best (although I'd be happy to share my opinion on the benefits of outsourcing if you have some time), there is a clear common denominator shared by any advisor or firm doing technology right and it is this:

It's no longer enough to simply have access to the best financial technology available (in-house or out-sourced); knowing how to use that tech to the best of its ability is where the difference will be made.

Moreover, making the decision to outsource elements of your tech stack to a third-party doesn't alleviate the need to ensure expertise. Rather, it simply shifts the responsibility to one that is now shared between you *and your technology partner*.

Regardless of the approach that is right for you, consider these tips as critical to your success in either scenario:

1. **Invest the time to understand all that you have access to.**
2. **Take the extra step to complete training courses offered beyond the onboarding process.**
3. **Regularly attend educational or networking events available.**
4. **Stay up-to-date on product enhancements that are released.**
5. **Partner only with providers you're confident are as committed to innovation as you are.**

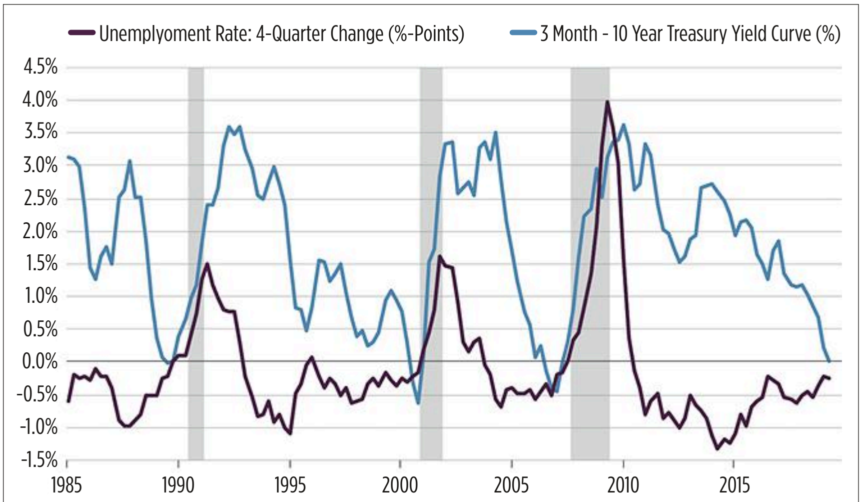
Whether seeking to find a third-party provider or manage your technology execution entirely in-house, implementing the right solution is only the first step in an ongoing process to ensure your investment will pay off for your firm and your clients. And although there are pros and cons to both options, the real determinant of long-term success will be whether or not the platform is being used to its fullest potential by your team and, especially if outsourcing, *your technology partner* as well. ■

Dean Cook is the Chief Executive Officer of FTJ FundChoice, a leading provider of investment, reporting and service solutions.

Learn more at www.ftjfundchoice.com.

Will the Fed's Pivot Save the Day?

By Brian Smedley
GUGGENHEIM



Source: Guggenheim Partners, Haver Analytics, BEA. Quarterly average data as of 3.31.2019. Q2 based on data through 6.11.2019.

First quarter U.S. economic growth of 3.1 percent was much better than initially projected. The resilience of the economy was impressive, given headwinds that included tighter financial conditions, the government shutdown, severe weather, tax refund delays, and seasonal adjustment challenges. However, underlying growth was not as strong as it appeared: Consumption and investment spending, which together account for 85 percent of gross domestic product (GDP), grew by a meager 1.3 percent. Inflation also continued to decelerate, with the price deflator for core personal consumption expenditures (PCE) rising by 1.0 percent, the third consecutive quarterly reading below the Fed's target.

Several factors that boosted growth early in 2019 should fade. Inventories, which have risen for three straight quarters, will eventually need to reverse. Similarly, big gains from trade and highway construction are unlikely to last. And the third quarter will bring fiscal battles that could rattle markets and undermine confidence: In September, Washington will have to agree on a new spending bill to avoid another government shutdown, a debt ceiling increase to avoid a technical default, and higher spending caps to avoid fiscal tightening baked into current law for fiscal year 2020.

U.S.-China tensions have flared up again, and consumer and business confidence are likely to suffer as a result. The boost to consumer spending from tax cuts has faded, and consumer confidence surveys already point to a worrisome slowdown in the pace of improvement in current conditions, which typically occurs in the year before a recession. Similarly, while the labor market remains strong, the pace of improvement has moderated. The rate of increase in job openings has slowed sharply in the past six months, while the pace of decline in the unemployment rate has slowed to just 0.2 percentage point in the year through May. Historically, a flattening out of the unemployment rate has been a strong leading indicator of recession, especially when accompanied by a flat or inverted Treasury yield curve.

The Labor Market Is Confirming the Yield Curve's Late-Cycle Warning

Our recession forecasting tools continue to suggest that a downturn is likely to begin in the first half of 2020. Meanwhile, our proprietary asset allocation models point to sharp declines in equities over the balance of 2019 and into next year. Should these forecasts prove overly pessimistic, the excesses will continue to build, as seen in rising corporate leverage and increasingly inflated equity prices against the backdrop of growing trade tensions and declining corporate operating margins. Thus, we believe the combination of relatively high valuations and growing downside risks warrants a cautious stance, and we are defensively positioned across all strategies. ■

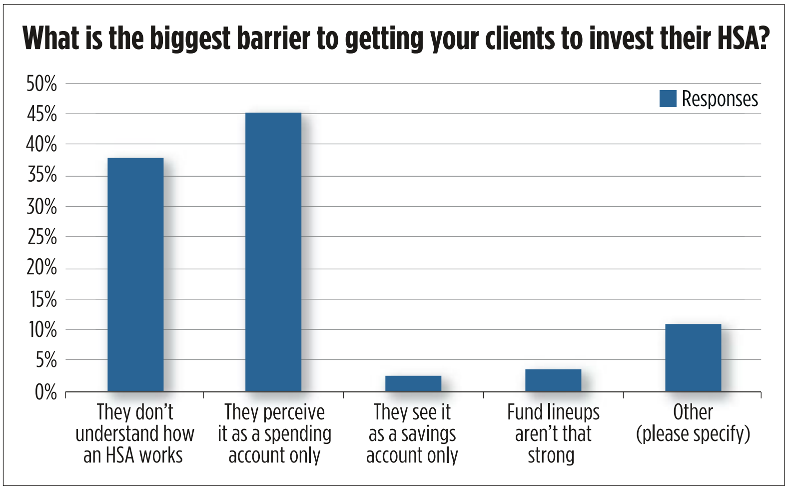
Brian Smedley is Senior Managing Director, Head of Macroeconomic and Investment Research at Guggenheim Investments.

What You Don't Know About HSAs Can Hurt Your Clients

By Craig Keohan
HEALTHSAVINGS

Skyrocketing healthcare costs are quickly becoming one of the biggest (and most stressful) expenses for retirees. Retirement planning can no longer stop at savings, stocks, 401(k)s and IRAs. Many advisors are missing a major opportunity to address their clients' future healthcare concerns in their long-term financial strategies. In fact, for eligible clients, health savings accounts (HSAs) are the most tax-advantaged way to plan for rising healthcare costs.

Advisors need to rethink their clients' retirement planning mix to account for climbing healthcare costs. Offering all of the same tax benefits as a 401(k), HSAs provide an extra tax advantage on healthcare costs:



- Flexibility: Funds can be withdrawn at any time tax-free for qualified medical expenses with no tax penalty.
- Growth: Option to pay for medical expenses out-of-pocket so you can invest HSA funds and let them grow, then reimburse yourself those medical expenses with tax-free HSA dollars years or even decades later.
- Savings: HSA contributions have the potential to save on FICA, keeping an extra 7.65% of your HSA contributions in your pocket.
- Future: Once your client turns 65, they can use HSA funds for non-medical expenses with no additional tax penalty except normal income taxes just like a 401(k)!

However, while Nationwide found that consumers working with an advisor expect them to provide advice on planning for future healthcare costs, a recent HealthSavings study revealed that the majority of registered investment advisors (RIAs) are still not offering HSAs to clients.

The HealthSavings survey also revealed a lack of knowledge about HSAs—how they operate and how they fit into a long-term financial strategy. While 36 percent of advisors noted they do not fully understand how an HSA works, nearly half said that clients perceive HSAs as spending accounts only.

At the intersection of health and wealth, investment-focused HSAs offer advisors a way to help clients address their future health needs in the retirement planning process. Look for HSAs that don't require a cash minimum before investing in institutional-class funds with low expense ratios so your clients don't get pigeonholed into a spend/save HSA mentality and can maximize their returns.

To help clients prepare for changing retirement needs, advisors must start managing HSAs in the context of a client's full portfolio to align all of their investment accounts and help them meet their personal retirement vision. Given the triple-tax advantage and the opportunity to maximize lifetime investment value, HSAs should be part of every retirement planning conversation.

Are you ready to integrate HSAs into your clients' investment mix? ■

Craig Keohan is Chief Revenue Officer of HealthSavings Administrators.

Learn more at HealthSavings.com.

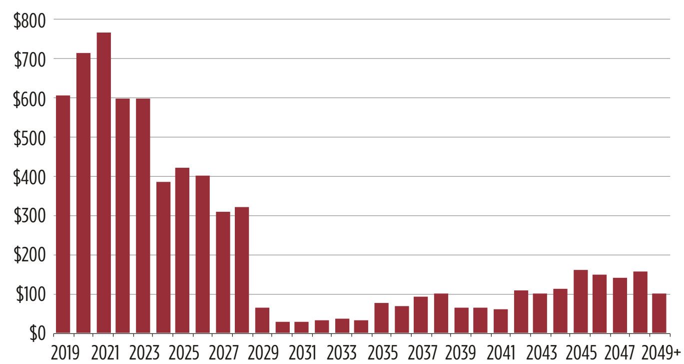
HealthSavings

A $3 Trillion Time Bomb?

By Will Nasgovitz
HEARTLAND ADVISORS

For most of the past 10 years, corporate debt has been little more than an afterthought for many investors. With interest rates low, the economy strong, and relatively easy lending standards, the thinking went that borrowing to buy back shares or finance acquisitions was a low-risk strategy. But the next five years could severely test that Pollyanna view.

USD Investment Grade Debt Maturing (in Billions)



Source: Wells Fargo Securities, Bloomberg L.P.
Economic predictions are based on estimates and are subject to change.

As shown in the chart, roughly $3.3 trillion—48% of all current outstanding commercial debt—will come due by 2023. The sheer volume would be challenging for the market to digest in the best of scenarios, let alone this late in an economic expansion. Adding to our sense of caution are early signs that lending standards have begun to tighten for commercial and industrial borrowers. As banks become more stringent, borrowers could find themselves paying higher rates just to secure the capital they need to retire outstanding obligations.

More stringent lending standards could be particularly disruptive this time around given the proliferation of so-called zombie companies that are failing to generate enough in earnings to cover interest expenses on outstanding obligations. Recent studies have estimated that 15% of the names comprising the S&P 500 are among the walking dead, while a full 25% of small companies in the Russell 2000® Index fail to earn enough to cover borrowing costs.

While cheap debt has helped fuel an appetite for borrowing, the current rate environment is likely to do little to buoy businesses that have struggled to turn a profit during the current expansion. If, as is widely anticipated, the Federal Reserve opts to cut rates later this year, the move will likely be in response to a softening economy. Put simply, we expect zombies that struggled in a robust economy will fare worse against a backdrop of tariffs, slowing demand and budding inflation.

While we don't currently see signs of a full-blown financial crisis on the horizon, we do believe that excessive debt adds unnecessary challenges to companies in general and will likely be a headwind for heavy borrowers in the intermediate term going forward. Not surprisingly, our long-held caution toward financial leverage plays out in our investment decisions: our portfolios are underweight debt-laden companies relative to their benchmarks. ■

Will Nasgovitz is CEO and Portfolio Manager at Heartland Advisors, Inc.

Disclosure:

Past performance does not guarantee future results. Investing involves risk, including the potential loss of principal. There is no guarantee that a particular investment strategy will be successful. **Value investments are subject to the risk that their intrinsic value may not be recognized by the broad market.**

The statements and opinions expressed in this article are those of the presenter. Any discussion of investments and investment strategies represents the presenters' views as of the date created and are subject to change without notice. The opinions expressed are for general information only and are not intended to provide specific advice or recommendations for any individual. Any forecasts may not prove to be true. Economic predictions are based on estimates and are subject to change.

Definitions: Buyback: the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

2019223

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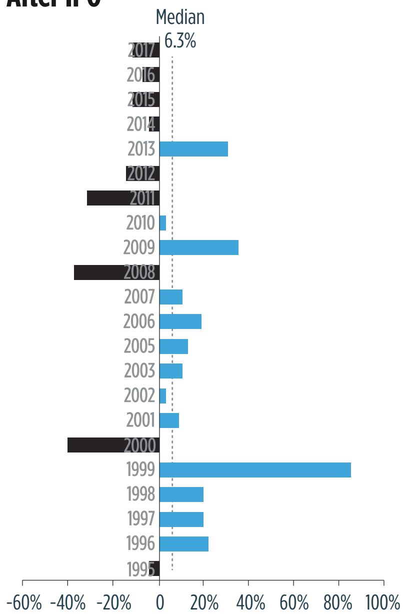
Age Really Does Matter When it Comes to Unicorns

By Nick Veronis and Aref Jessani
iCAPITAL NETWORK

Average Market Cap Gains One Year After IPO



Source: Fact Set, Goldman Sachs Global Investment Research, 6/15/2019

In %-terms; companies included by year of IPO. Excludes 2004 due to outsized gain of 699%.

The most under-appreciated fact about an IPO-bound unicorn company might just be its age. While there are many factors to consider in evaluating any investment, age can reveal a lot about a unicorn—and, today, this metric is flashing a yellow light to which investors should pay close attention.

Despite the accelerating speed at which technology companies are scaling, with a record number reaching unicorn status within three years, the median age of tech companies listing in the U.S. has increased to just over 11 years old compared to 8 years in the early and mid-2000s. While this may seem counterintuitive given that a 5-year-old unicorn today could be further along in its growth trajectory than a 10-year-old tech company was a decade ago, it should come as no surprise.

Indeed, more than 50 companies have become unicorns in three years or less, and the number of private tech companies sprinting to $100+ million in revenues in a few short years is unprecedented. By comparison, many of the most spectacular tech companies born in prior generations—Amazon, eBay, Salesforce—did not reach unicorn status until after they went public. Perhaps more important, these companies went public when they were much younger: 3 years old in the case of both Amazon and eBay, 5 years old in the case of Salesforce, and 6 years for Google, leaving tremendous upside for public investors (Google was an exception in that it was a unicorn pre-IPO). Today's best-known unicorns are well past that age with 2019 vintage IPO companies such as Uber, Airbnb, Pinterest, We Company, and Slack ranging from 9 to 11 years old.

The entrepreneurs behind today's unicorns have enjoyed access to abundant sources of private capital allowing them to avoid the regulatory and disclosure hassles of the public markets, which used to be the only way they could secure the financing necessary to take their business to the next level. In particular, the last five years have seen a massive amount of new capital enter the late-stage venture market. Initially, this came from sovereign wealth funds and traditional long-only participants such as Fidelity, T. Rowe Price, and Baillie Gifford that invested in late-stage "momentum rounds" leading up to an IPO. In late 2016, Softbank became the largest and most newsworthy entrant into late-stage funding through the launch of its $100 billion Vision Fund, with CEO Masayoshi Son declaring, "We are unicorn hunters."

In helping to create hundreds of unicorns and fueling their continued growth, the private capital markets have eclipsed the public markets and shifted most of the value accretion to private investors. The correlation between this tremendous influx of private capital and the performance of companies post-IPO is hard to ignore. Since 2011, only one IPO vintage (2013) has generated a positive average return for investors 12 months after public offerings.

So, when a mature unicorn files for an IPO, investors should wonder whether most of the magic has worn off. Why else would sophisticated private investors, who are constantly evaluating the growth potential of existing unicorns and scouring the private company landscape for the next ones, let that additional upside escape their grasp? ■

Nick Veronis is Co-founder and Managing Partne, and Aref Jessani is Senior Vice President, Research & Due Diligence at iCapital Network.

1. 'We are unicorn hunters,' says Masayoshi Son — Nikkei Asian Review. June 20th, 2018

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Cyclical Trends and Structural Alpha—Enhancing Returns in Client Portfolios

By Joseph Burns
iCAPITAL NETWORK

"Indexing, or passive management has become increasingly popular in recent years. If and when economic or company fundamentals turn unfavorable the large, blue-chip, high-multiple growth stocks will return to more "normal" valuation levels. This will mean a decline in stock prices—in some cases a substantial decline." —MarketWatch, January 2000

You would be forgiven for assuming the observation above is recent. However, this prophetic statement was written almost twenty years ago, and from March 2000 the S&P 500 suffered through a lost decade of performance.

The recent cycle of passive capital into large-cap equities will provide similarly interesting context. Over the past year the S&P 500 Index has outperformed the Russell 2000 by nearly 13%, with large caps producing a 4% return as small caps declined by 9%. The last time U.S. equities had that level of dispersion was back in 1999, just as equity markets peaked.

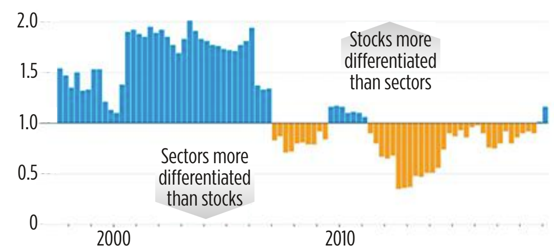
Large-cap, long-only passive funds have outperformed over the past 10 years. Yet this trend may have already begun its reversal. As demonstrated in the following chart, the movement of individual stock prices recently had a wider dispersion than sectors, reversing a multi-year cycle whereby sector movement drove returns.

It is tempting to be "overweight" the S&P 500 Index, given the perceived diversification and tremendous recent performance. But investors must recognize that just 1% of its holdings—Microsoft, Apple, Amazon, Google and Facebook—comprise over 15% of the Index and have driven gains for many years. Hopefully, the "beta trade" continues, although most trends eventually reverse.

Stock Picker's Market

Individual share prices moved more independently of one another than equity sectors in the first quarter.

Sector correlations vs. stock correlations within sectors, by quarter



Source: BofA Merrill Lynch US Wquity & US Quant Strategy analysis of FactSet data

For Illustrative Purposes Only.

Beyond cyclical trends and equity beta, investors must identify market inefficiencies and structural alpha. At its core, alpha can be considered as a measure of differentiation. For advisors, this alpha can be sourced by investing with "emerging" hedge funds that provide multiple sources of differentiation:

- *Alignment of Interest:* Smaller funds generate the majority of their revenue from performance fees, while larger funds can generate substantial revenue from their management fee. For newer funds without a lengthy track record risk management is crucial. Taken together, the need to perform AND the need to protect is more "mission critical" with emerging funds.
- *Deep Domain Expertise:* Certain strategies with a dedicated focus on a market niche provide smaller funds the flexibility to dynamically allocate capital. For example, technology and healthcare provide a continuous source of secular "winners and losers", creating a terrific backdrop for active long-short investing.
- *Market Inefficiencies:* As funds grow they typically move up the capitalization spectrum into securities impacted more by fund flows and broad market factors. Smaller funds can express conviction in less correlated securities through larger position sizes, without the corresponding illiquidity risk.

Cyclical trends provide opportunities to improve portfolios through tactical allocation shifts. Investing in funds that are structurally differentiated, with lower costs and greater transparency can make a significantly positive impact as well, especially as certain long-term trends show signs of fatigue. ■

Joseph Burns is Managing Director and Head of Hedge Fund Origination & Due Diligence at iCapital Network.

Learn more at www.icapitalnetwork.com.

Second Half of 2019 Provides Opportunities for Active Managers

By Ryan Nauman
INFORMA FINANCIAL INTELLIGENCE

It's no secret that investors have been favoring low cost passive investments that track a specified index, whether the investment is in the form of an exchange traded fund (ETF) or a passively managed mutual fund. According to EPFR, passive investments (ETFs and mutual funds) have attracted over $950 billion in net inflows, while actively managed funds have experienced over $1 trillion in net outflows between June 1, 2009 and June 12, 2019.

During this 10-year bull market the S&P 500 index has outperformed 56% of all actively managed large-cap managers within the PSN SMA database (Table 1). It is often stated that active managers benefit during times of volatility, as they have less stringent mandates and can play defense during a market sell-off, whereas passive investments cannot. As we know, volatility in equity markets picked up during the last half of 2018 and again in May. During October 2018 thru May 2019 the S&P 500 index outperformed 58% of all active large cap managers within the PSN SMA database.

Table 1 also displays how other universes of actively managed SMA's fared against their respective index. As expected, the indexes tended to outperform a greater percentage of managers within the efficient asset classes (large caps). While the more inefficient asset classes (small caps and international) provided financial practitioners with more opportunities to locate outperforming managers.

PSN SMA Universe (Gross Returns)	Index	Index Return Rank (Oct. 2018 – May 2019)	Index Return Rank (June 2009 – May 2019)
PSN Large Cap	S&P 500	42%	44%
PSN Large Cap Value	Russell 1000 Value	21%	50%
PSN Large Cap Growth	Russell 1000 Growth	68%	39%
PSN Small Cap Value	Russell 2000 Value	58%	90%
PSN Small Cap Growth	Russell 2000 Growth	84%	91%
PSN EAFE	MSCI EAFE	47%	87%
PSN Emerging Markets	MSCI EM	67%	94%

Table 1- Source: Informa Financial Intelligence's Zephyr Platform

The second half of 2019 will continue to provide obstacles for financial practitioners as market volatility will remain, due to growing political uncertainties, slowing global growth, ongoing trade tensions, and slowing U.S. growth. On the flip side, this volatility will continue to provide investors with opportunities to add alpha to their portfolios. Emerging market, European, mid-cap, and small-cap managers should be able to take advantage of the volatility and risks to provide financial advisors with opportunities to find outperformance. Additionally, growth managers will provide greater alpha generating opportunities compared to their value cousins.

During these times of increased volatility and the growing potential for a market correction, it is important to remember that active managers can play defense during a market downturn, as passive investments are tied to an index and cannot move to cash and take a more defensive approach. This is another reason why using an active approach in the riskier asset classes will prove beneficial.

Passive investments should be part of every financial advisor's fund menu. However, there are asset classes that will provide financial advisors greater opportunities to find outperforming managers as well as help protect on the downside, as the choppy waters continue in 2019. ■

Ryan Nauman is a Market Strategist at Informa Financial Intelligence's Zephyr. His market analysis and commentaries are available at financialintelligence.informa.com

Learn more at financialintelligence.informa.com.

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Central Banks' Dovish Turn is Shaping my Outlook for the Back Half of 2019

By Kristina Hooper
INVESCO

U.S. We expect the economy to decelerate very modestly in the back half of this year, supported by Federal Reserve accommodation. This should benefit U.S. equities, in our view. Given this expectation that rates will be lower for longer, I believe institutional investors should consider a greater allocation to a variety of fixed income sub-asset classes as well as dividend-paying stocks.

Eurozone. We expect a continued, modest deceleration in the eurozone economy in the next few months. We have concerns that the next European Central Bank (ECB) president—who will begin his or her term in November—may be more hawkish and accelerate a slowdown in the eurozone. And because the ECB may not be accommodative enough, we are cautious about eurozone equities in the next six months. We are also cautious on UK equities in the near-term, given so much uncertainty—and given that the Bank of England does not appear ready to provide more accommodation.

Japan. We expect modest improvement for the economy. With valuations attractive for Japanese equities, and the Bank of Japan looking for ways to provide more accommodation, we are slightly positive on Japanese equities.

Emerging markets. In general, we believe emerging markets (EM) economies are likely to benefit from more Fed accommodation, especially the end of balance sheet normalization. However, we recognize some emerging economies could be negatively impacted if the trade war worsens and the economic slowdown accelerates. Therefore, we are positive on EM equities, but we believe institutional investors need to be selective as some EM markets may not fare well given growing geopolitical risks. In terms of China, we expect its economy to maintain growth at the 6% – 6.5% level. That's because we believe the government is doing a good job in terms of providing stimulus to its economy. We recognize that Chinese monetary growth has been lackluster despite this level of stimulus. However, looking at metrics such as loan growth and rail freight suggests growth is solid. In addition, we are also seeing more flows into Chinese equities because of greater inclusion in some MSCI indexes.

Conclusion

In this environment, we believe the bias is towards risk asset outperformance. However, we recognize the dangers that trade wars pose, especially to a global economy that is already

slowing. Therefore, we are following recession indicators closely, recognizing that we need to be ready to tactically shift portfolios with shorter-term time horizons if compelling signs of a recession appear. We will vigilantly watch for signs that the slowdown is turning into a recession. However, at this juncture, we expect the economic expansion to continue—albeit more slowly. ■

Kristina Hooper is Chief Global Market Strategist at Invesco.

4 Keys to Cutting Down on Compliance Costs in Today's Regulatory Environment

By Jeffrey Cowley
INVESTEDGE

In today's financial landscape, increased regulations have led to a significant rise in the amount of time and money banks and financial institutions spend on compliance monitoring.

To address the evolving pain points associated with an intensifying regulatory spotlight, investment management firms and financial institutions need tools that are uniquely positioned to focus bank guidance from the Office of the Comptroller of the Currency (OCC) regarding asset management.

It can be very expensive for firms to handle their entire regulatory workload in the front office. According to research from Deloitte, compliance costs can eat up as much as 4% of revenue at a wealth management firm thanks to inefficient processes and the time spent performing reviews by highly paid front-office managers.

While compliance monitoring is certainly an essential function for wealth managers, it shouldn't get in the way of providing the highest level of client service possible or pursuing cost-effective scale. Thankfully, new capabilities have emerged that can take much of the heavy lifting from front-office advisors.

Below are four keys every financial institution can leverage to keep compliance costs down:

1. **Cut down on secondary reviews and oversight while maintaining quality:** Traditionally, every administrative and investment review is double checked by a second employee. But some wealth managers are taking a page from the manufacturing industry by implementing a quality control process which selects a random, statistically valid percentage of total reviews for a second look. Research has shown that when employees understand that their review may or may not be randomly selected for a double-check, the overall quality of the initial review increases. By cutting down on the number of secondary reviews, wealth managers save countless hours that can be spent on revenue-generating tasks.
2. **Leverage workflow and documentation capabilities:** Wealth managers need to prove to regulators that their investment recommendations to clients are in their clients' best interests. The easiest and fastest way to do this is to create a history of each client relationship and the decisions made for each one. Timestamping these decisions with detailed notes in a searchable database provides managers with easily-accessible information to fall back on if regulators or clients begin asking questions.
3. **Reassign routine administrative reviews to middle office employees:** There is no need for highly paid, front-office advisors to spend their valuable time performing routine administrative reviews. With software that automatically reassigns these tasks to middle-office employees, firms can save money while their highly compensated managers spend time working with clients and focusing on revenue-generating tasks.
4. **Configurable exception-based monitoring criteria and workflows:** Leveraging a one-size-fits-all solution only slows firms down when it comes to compliance monitoring. By configuring alerts and workflows, wealth management firms can turn their compliance monitoring efforts into a well-oiled, efficient machine.

Compliance monitoring shouldn't drag on company profits. With the above four keys, wealth management firms can cut down on wasted time and focus on cost-effectively scaling the business. ■

Jeffrey Cowley is Chief Technology Officer at InvestEdge, a leading provider of innovative investment technology solutions and tools for managing, measuring and reporting on all aspects of wealth management.

Learn more at www.investedge.com/what-we-do/compliance-monitoring/

INVESTEDGE

Help Clients Seize the Opportunity of Today's Retirement

Ensure protected lifetime income is part of your financial planning conversations

By Emilio Pardo
JACKSON

Now is the perfect time to take stock of how well-prepared your clients are for retirement futures defined by unprecedented longevity and greater opportunities than past generations enjoyed.

Consider that many Americans today will enjoy life into their 80s and 90s and may even live well beyond their 100th birthday. At the same time, the very definition of retirement is changing—for decades it was a finish line, now it's viewed more as an opportunity for revival that welcomes the pursuit of new passions and living with renewed purpose.

The way Americans fund retirement also has changed. Few workers have access to employer-backed pensions. More people are self-funding their retirement through 401(k)s—if they have access to them—or other savings, and many can't save enough.

These shifts are leading government and thought leaders to reevaluate policies that were formed under very different assumptions. They are also changing how we must approach such concepts as the nature of work, health and physical fitness, housing, education—and especially financial planning.

The modern retirement landscape requires financial professionals to engage in financial planning that enables clients to face this phase of life with confidence and purpose. Making protected lifetime income part of every comprehensive retirement conversation is vital to this very important goal.

The importance of this is clear from a recent survey conducted by the American Institute of CPAs, in which financial planners cited running out of money in retirement as their clients' biggest fear. Another top worry was the ability to maintain their current lifestyle and spending level.[1]

There are many reasons Americans are afraid. These include retirement planning that has focused mostly on accumulation and less on a reliable, steady, regular check in retirement. There also are concerns about ongoing market volatility and uncertainty about Social Security's present and future viability.

These and other factors demand products that enable clients the freedom to pursue exciting next chapters as the idea of retirement continues to evolve. For many, a source of protected lifetime income—such as an annuity—can help bridge the retirement income gap.

For example, clients who find the idea of balancing their cash reserves with an appropriate amount of risk in their portfolio too daunting may want to consider an annuity as a way to cover what they expect to be their fixed costs in retirement. Annuities with a lifetime income benefit pay out a set amount no matter how the markets perform, and variable annuities can provide the potential for savings growth when markets rise.

We know explaining annuities and their benefits to clients can be complicated. That's why we're working as an industry to eliminate jargon and make them more accessible and easier to understand. We're also leveraging new tools and technology to help financial professionals with their clients' retirement income planning. For example, at Jackson we're providing the ability to model secure income, including lifetime income benefits, within the industry leading financial planning tools they're already using. These are just some of the many ways we're supporting a more comprehensive financial planning experience.

Fortunately, leveraging all the expertise and resources available today can turn one of Americans' greatest fears into their greatest opportunity.

Now is the time to help ensure your clients can realize the great potential today's retirement holds. Help them secure their financial futures with retirement options that provide financial freedom for life. ■

Emilio Pardo is Senior Vice President and Chief Marketing and Communications Officer of Jackson Holdings LLC.

1. www.aicpa.org/press/pressreleases/2019/going-broke-remains-top-concern-in-retirement.html

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Key Themes Shaping the Investment Landscape

JANUS HENDERSON INVESTORS

In our Mid-Year Market GPS, key investment professionals discuss the major investment themes of 2019.

The technology sector is writing the operating system for a digital global economy, says Denny Fish, Portfolio Manager, Global Technology, but the sector is an evolving playing field. He cites Internet platforms facing greater calls for regulation and potential antitrust investigations as trends that could persist. But, he believes opportunities created by the shift to a digital economy—cloud computing, the Internet of Things, artificial intelligence and 5G"will be a significant source of long-term earnings growth. Cloud computing could represent significant opportunity for investors, adds Portfolio Manager Jeremiah Buckley, and not just companies providing cloud services but also those behind the infrastructure that facilitates the growth of the cloud.

Health care innovation led to a surge in mergers and acquisitions in 2019, explains Andy Acker, Portfolio Manager, Global Life Sciences. And despite the uncertainty created by the push for a single-payer medical system, Mr. Acker believes innovation looks set to continue. In May, the Food and Drug Administration approved the second gene therapy in the U.S. while new technology such as robotic-assisted surgery is emerging. In his view, these and other advances could lead to significant growth and fuel additional M&A.

We expect yields to remain low and the search for income to continue. With the Federal Reserve's (Fed) more accommodative stance, Co-Head of Global Bonds Nick Maroutsos sees total return potential at the front end of the U.S. yield curve and believes bond investors should look globally for other attractive sources of yield. Seth Meyer, Portfolio Manager, High Yield, adds that income seekers may benefit from looking across fixed income sectors for attractive risk-adjusted yields, citing high-yielding asset-backed securities tied to the strength of the consumer as one potential opportunity.

Trade disputes remain the biggest source of uncertainty for U.S. equities, says George Maris, Co-Head of Equities – Americas. Consequently, he believes central banks, including the Fed, will keep monetary policy accommodative for a while longer. While the list of geopolitical threats is long and getting

longer, Jim Cielinski, Global Head of Fixed Income, believes U.S.-China trade wars and Iran sanctions pose the greatest systemic risks. He feels odds are high that these events remain dominant in 2019 but that most other geopolitical worries will only create short-term volatility. ■

Bond Types That Tend to Fare Best Following Yield Curve Inversions

By Matthew D. Miskin, CFA and Emily R. Roland, CIMA
JOHN HANCOCK INVESTMENT MANAGEMENT

A funny thing happened to the U.S. Treasury yield curve recently.

Beginning on March 22, 2019, the spread between the yields on 3-month and 10-year U.S. Treasury securities—which had remained positive throughout the current business cycle—inverted for five consecutive trading days, a similar event to that preceding the past two recessions.[1]

Historically, an inverted yield curve has been one of the most reliable harbingers of stock market peaks and economic recessions in the United States. The yield curve has inverted before each of the past seven recessions, and it produced only one false signal in that half-century span.[2]

Promising areas for bond investors following yield curve inversions

While bonds typically fare better than stocks once the cycle turns, some types of bonds tend to do better than others after the yield curve inverts.

An intermediate-term bond strategy was among the best places for investors to be when the yield curve inverted in 2006 before the global financial crisis: The average intermediate-term bond fund went on to post a 0.55% annualized total return. When the yield curve inverted at the turn of the prior cycle—as the tech bubble began to burst in 2000—the category posted an 8.66% annualized total return.[3] During these last two cycles, the intermediate-term bond fund category landed squarely at the top of the list, revealing the desirable effects of duration during down legs of the market cycle.

Intermediate-term bonds proved their mettle when the past two cycles turned

Morningstar category returns (%) from 3 mo.-10 yr. yield curve inversion to subsequent S&P 500 Index trough

Asset category	8/1/00 to 10/7/02	7/17/06 to 3/9/09	Average
Intermediate-term bond	8.66	0.55	4.61
Corporate bond	8.78	-0.78	4.00
Ultrashort bond	4.98	-1.45	1.77
Emerging-market bond	6.91	-3.54	1.69
Multi-sector bond	2.63	-3.26	-0.32
Nontraditional bond	-2.12	-3.51	-2.82
Bank loan	`1.74	-9.28	-3.77
High-yield bond	-5.61	-8.84	-7.23
S&P 500 Index	-22.96	-18.60	-20.78

Source: Morningstar Direct, 2019.

Preparing for a sustained yield curve inversion

While a weeks-long yield curve inversion has been a reliable predictor of the business cycle's end, an inversion lasting only a few days isn't necessarily a signal of impending trouble. Still, the mere existence of a yield curve inversion supports our view that we're in a late-cycle environment. Historical data suggests that a yield curve steepening following a momentary inversion has represented an attractive time to add duration.[4] With that in mind, emphasizing intermediate-term bonds right now seems like a shrewd late-cycle investing move. ■

Matthew D. Miskin, CFA is market strategist and Emily R. Roland, CIMA, is head of capital markets research at John Hancock Investment Management.

The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Views are those of the authors and are subject to change. This commentary is provided for informational purposes only and is not an endorsement of any security, mutual fund, sector, or index. This material does not constitute tax, legal, or accounting advice, and neither John Hancock nor any of its agents, employees, or registered representatives are in the business of offering such advice. Please consult your personal tax advisor for information about your individual situation. No forecasts are guaranteed, and past performance does not guarantee future results.

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1. Treasury.gov, 2019
2. Manulife Investment Management, 2018
3. Morningstar Direct, 2019
4. FactSet, 2019

Learn more at www.jhinvestments.com/viewpoints/fixed-income/which-bonds-fare-best-following-yield-curve-inversions.

Maintain a Financial Plan: The Case for High-Quality Companies

By Thomas E. Connaghan, III
KAYNE ANDERSON RUDNICK

When will this bull market end? Are we headed for a recession? These are questions that many financial advisors are asked these days as investors worry about what the future holds. At KAR, our focus is to put current market dislocations into perspective and ensure that client financial plans and customized investment portfolios address growth expectations, capital preservation and income needs.

The case for maintaining a financial plan: The first step in designing a customized investment portfolio is to create a financial roadmap. At KAR, we walk clients through a series of thoughtful budget and risk management concepts. Ultimately, the financial plan provides an important blueprint that is supported by specific portfolio investments that are designed to help achieve the goals set forth in the plan.

The case for high quality: When the economy slips into a recession, low-quality stocks typically underperform high-quality companies. A key reason is that they often are more reliant on the debt markets because they are more capital intensive and less able to finance growth through internal resources during times of economic stress. Our goal is to create a portfolio of what we believe are the highest quality businesses available. We want companies that have a differentiated and sustainable competitive advantage within their industry, an advantage that creates favorable long-term growth prospects and profitability in good economic times and bad. Typically, these are companies with strong free cash flow and returns on capital. Our goal is to find these well-managed businesses at attractive valuations.

The case for lower volatility: Owning quality businesses often results in portfolios that have lower volatility—a key component of creating a reliable income stream in retirement when systematic withdrawals are needed. Volatility can nega-

tively impact investor discipline. In our view, an investment that offers a more consistent return pattern, including smaller drawdowns, is better able to sustain a healthy retirement. Playing great defense in choppy markets can often put portfolios and financial plans in a better position to generate needed income and also leave a much bigger nest egg to boot.

The case to invest now: Even if you have a thought-out financial plan and a top-notch portfolio of stocks, bonds and alternatives, I'm often asked if it's a good time to invest. Much research has been conducted on the effectiveness of timing the market in this manner. While there are always countless risks to seemingly not investing today, buying on market pullbacks only outperforms consistent dollar cost averaging approximately one-third of the time. No one knows how long until this bull market will continue until the next inevitable recession. Fed rates, trade issues, and the sustainability of corporate profits will ultimately reveal the next market crisis. Until then, plan for quality. ■

Thomas Connaghan is a Senior Wealth Advisor for KAR, a wealth advisory firm providing comprehensive wealth management solutions to institutions and high-net-worth individuals.

This report is based on the assumptions and analysis made and believed to be reasonable by Kayne Anderson Rudnick ("KAR"). However, no assurance can be given that KAR's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. Past performance is no guarantee of future results.

KAR
Kayne Anderson Rudnick
Wealth Advisors

Learn more at www.kayne.com.

Time to Reflect and Recognize: Outlook for the Markets and Economy

By Steven L. Skancke, Ph.D.
KEEL POINT

It is always affirming to see our forecasts come to fruition and even sweeter when they are against the prevailing consensus. Eight months ago, in the midst of political, tariff and market turmoil, we anticipated a rebounding US economy and stock market in 2019. Forecasting is not for the faint of heart but a delight when right.

If we reflect on 2019 so far, the first quarter saw robust economic growth. In fact, this represents the longest economic expansion—121 months—since 1854. A record low US unemployment rate, immaterial inflation rate, record setting US stock market with the best first-half-year performance in millennials' memory. The first half of 2019 provided a great run for workers, savers and investors.

As we move into the second half of the year, it is important to recognize the changes in market conditions. For stock markets a principal driver is earnings growth. The "magic" comes with investor "confidence" which allows the price-earnings ratio to rise or fall, based on expectations of growing, sustaining or declining earnings. For an economy, growth is a product of labor growth multiplied by productivity. The "magic" is in increasing productivity for the labor force available.

While economic production can create spending demand, growth also depends on consumer, business, government and overseas spending on US production. Consumers are 70% of the US economy, so their being confident about their future is a determinant for increasing or decreasing spending. Likewise, business investment depends on companies' outlook on growing sales and profitability opportunities. For these reasons we pay attention to consumer and business confidence indicators.

The June 25 Conference Board release showed a decline in consumer confidence in current conditions and an even greater decline in the expectations index. Neither is yet signaling "recession" and each can rebound, but both are worth noticing after being up in May.

The Small Business Optimism Index increased again in May with more than sixty percent of respondents saying this is a good time to increase hiring and capital spending on expectations of a strong economy and rising sales. "Optimism among small business owners has surged back to historically high levels, thanks to strong hiring, investment, and sales," said NFIB President and CEO Juanita D. Duggan. (NFIB.com/SBOI)

Outlook. The principal disruptors to sustained economic and stock market growth are the negative impacts of increasing tariffs on corporate earnings, consumer spending and net exports. The fall of US 10-year Treasury rates below three-month Treasury reflects declining investor confidence. While a recession is not imminent, this Treasury "yield curve inversion" is a reliable indicator of future growth slowing. Pre-announcements of disappointing Q2 corporate earnings are also increasing.

Investor portfolio allocations should be set to accept economic and market fluctuations. Flexible equity strategies that allow managers to change market exposure dynamically are an effective complement to an appropriately risk balanced, all weather investment portfolio. ■

Steven L. Skancke, Ph.D., is Chief Economic Advisor for Keel Point, LLC, a Registered Investment Advisor managing more than $2 billion in client assets, and former U.S. Treasury and White House National Security Council staff member.

Learn more at: www.KeelPoint.com.

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Protect Your Investment Portfolio with Downside Protection in the Multifamily Sector

By Antonio Luis Ferré Rangel
KINGBIRD INVESTMENT MANAGEMENT

The American economy has reached the top of a record-long expansion cycle, and economists and investors alike are seeing signs of a correction ahead. Political and economic headwinds are picking up, with the Federal Reserve hitting the pause button on future rate increases, and China and Mexico trade negotiations causing rising costs and uncertainty.

For family offices and other private wealth managers, the time is ripe to build additional downside protection into their portfolios. Real estate investment has become a de facto savings account for many investors—an inflation-protected vehicle that will be able to withstand the economic volatility of the next few years. And one category in particular, multifamily real estate, has especially attractive fundamentals.

Multifamily real estate has historically been the most enduring asset class in times of recession, outperforming office, hotels, retail, and warehouse. It is also the sector with the greatest supply and demand imbalances, as new apartment construction has not kept pace in providing housing for the lower-moderate and moderate-income households who need it.

At Kingbird Investment Management, we invest in multifamily housing assets through ventures with local operating partners on behalf of our century-old family office, Grupo Ferré Rangel, and third-party investment partners. Our strategy identifies value-add investment opportunities in multifamily real estate through a robust, research-driven approach.

This approach has resulted in a diversified portfolio that will offer sustainable results even if a downturn occurs. Here are the key tactics we've implemented:

Identifying markets with growth potential. By investing in real estate in different parts of the country, our portfolio has exposure to different job markets and regional economies. Our research focuses on markets tied to growth industries that won't be as affected by a recession, such as university and medical systems, technology and biotech.

Investing up and down the capital stack and in different partnership arrangements. We invest at general partner (GP), co-GP, limited partner, preferred equity and mezzanine debt positions, which provides opportunities to improve risk-adjusted returns as markets evolve.

Being realistic about our expectations and risk tolerance. Even in a highly competitive market, your goal should always be to go after the deals that you really want, not settle for what you can get. At Kingbird this means being realistic in our projections. We look for deals that have going-in cash-flow at the outset instead of relying on back-end capital appreciation as a large percentage of total return.

At the same time, we're flexible on our capital structure and in specific cases are willing to go further in the risk structure for deals that have some inherent, but fixable problems that create inefficient pricing, such as disputing partners, need for minor capital improvements or in which the bank is over-leveraged.

Family offices and private funds have the opportunity to diversify and create downside protection by investing in multifamily real estate, a class that generates durable yields. The linchpin driving success is relationships—choose partners that are transparent and have strong market knowledge and experience, and you'll reap the reward of sustainable returns. ■

Antonio Luis Ferré Rangel is chairman and CEO of Kingbird Investment Management, managing its multifamily property portfolio in the United States and Latin America, and COO of Grupo Ferré Rangel, in charge of new business development and the operation of business holdings.

Learn more at www.kingbird.com.

KINGBIRD
INVESTMENT MANAGEMENT

What to Watch in the Second Half

By Ronald Temple, CFA and David Alcaly, CFA
LAZARD ASSET MANAGEMENT

Even after a record-length expansion, we believe the US economy still has runway for growth into 2020. We believe three factors are particularly important in determining how long growth can be sustained. Improving US household finances are a critical lynchpin for our optimism. Escalating US protectionism risks undermining the positive household momentum by dampening business sentiment and investment that is already laboring under the weight of slower global industrial growth. The Federal Reserve's pivot from a tightening to an easing trajectory mitigates these concerns somewhat, but not entirely.

1. **US Household Finances.** We have been optimistic about the economic outlook for several years due to improving financial condition of US households. From 2010-12, average net worth for the bottom 50% of households was negative. By late 2018, these households had finally regained the wealth lost since 2007. Similarly, real household income and wages in the bottom half of the distribution both fell from 2007-14, but have been rising since with particularly strong growth for workers at the bottom of the income ladder. With unemployment at a 49-year low, we believe these trends can continue, supporting consumption, which accounts for over two-thirds of GDP.
2. **Trade.** Our biggest concern is that the overhang of US protectionism is undermining confidence, slowing investment and hiring decisions. Since the beginning of 2018, the US has implemented or threatened tariffs on roughly 45% of its goods imports, with retaliation by several trade partners. The impact of these tariffs has become increasingly clear in trade data, as the volume of trade covered grows, hopes for quick resolutions fade, and companies are forced to turn to "plan B". We are pessimistic about the trajectory of trade policy, and believe that even with positive near-term news, the unpredictability of actions to date undermines business confidence with significant repercussions.
3. **Monetary Policy.** Amid slowing global growth, weak inflation, and risks from trade, Chair Jerome Powell has said that the Fed will ease policy as necessary to "sustain the expansion". As a result, Fed funds futures are pricing four Fed rate cuts and the yield on the US 10-year treasury has dipped below 2.0%. Equity markets, on the other hand, are near all-time highs, sending a more positive message about the economy. We believe the equity markets more accurately reflect the state of the economy than the bond market and expect Fed rate cuts to disappoint the doves, in which case bond yields will likely grind higher as economic data stabilizes.

The upshot of this mixed outlook is that we believe returns on financial assets are likely to be lower than over the past decade, with more of the returns being driven by company-specific factors. We believe concentrating investments in companies with high sustainable returns on capital at attractive valuations offers the best risk-reward trade-off in this environment as they can participate in upside while also defending in weak markets. ■

Ronald Temple, CFA is a Managing Director and Co-Head of Multi-Asset and Head of US Equity; David Alcaly, CFA is a Research Analyst specializing in macroeconomic research at Lazard Asset Management.

Learn more at www.lazardassetmanagement.com.

LAZARD
ASSET MANAGEMENT

How to Focus on What Really Matters in the Markets

By John Lynch
LPL FINANCIAL

LPL Financial Research's *Midyear Outlook 2019: FUNDAMENTAL: How to Focus on What Really Matters in the Markets* reviews four primary pillars for fundamental investing—policy, the economy, fixed income, and equities.

Policy

LPL Research believes fiscal stimulus from the Tax Cuts and Jobs Act of 2017, decreased regulation, and increased government spending will continue to support the U.S. economy in 2019. Uncertainty around global trade, however, is dampening the benefits of fiscal support and may be discouraging capital investment. LPL Research believes trade tensions remain the primary risk to midyear forecasts.

The Federal Reserve (Fed) has indicated it will hold on raising interest rates further. With inflation low, global growth slowing, and trade risks, monetary policy may be too tight for the current environment; the Fed may lower rates later this year to provide a buffer against increased uncertainty.

Economy

Domestic: U.S. economic growth in Q1 was better than expected, with GDP growth of 3.1%. Consumer sentiment remains upbeat, and consumer spending continues to be a driver of growth; manufacturing, however, has seen a negative impact from trade. LPL Research believes fundamentals support moderate GDP growth of 2.25–2.5%.

Inflation: Consumer inflation slipped as global demand softened. While headline inflation data remain sluggish, wages and wholesale prices continue to grow. LPL Research expects core Consumer Price Index, which excludes food and energy prices, to grow 2–2.25% YoY in 2019.

Employment: Hiring has continued at an above-average pace, with employment growth averaging around 200,000 jobs per month. Weekly claims for unemployment benefits have dropped, and this tight labor market will likely lead to increased wage growth. Wages represent the largest cost for businesses, and it's difficult to have a sustainable inflation threat if wages aren't climbing quickly. Currently wage growth is just above 3%, suggesting wages are not yet a threat to the economy.

Global: Emerging markets (EM) should continue to lead developed markets in economic growth, given the challenges in developed markets, especially in Europe, according to LPL Research. In Japan, programs have supported growth, but true structural reforms remain elusive, and a VAT increase is scheduled for Q4. LPL Research expects India's GDP growth to outpace the rest of EM and Mexico to lead growth in Latin America.

Fixed Income

Fixed income investors benefited from falling rates. A flattening yield curve has been troubling for some investors, but LPL Research believes the flattening is due mainly to global investors searching for better yields and expects the 10-year Treasury yield to reach 2.5–2.75% in the next 6 to 12 months.

LPL Research favors an emphasis on investment-grade (IG) bonds in fixed income allocations, with a balance of IG corporates and MBS.

Equities

The overall U.S. economic picture has supported continued expansion, and LPL Research believes corporate profits will exceed the current consensus expectations.

The Fed's rate-hike pause boosted sentiment and increased demand for equities. Market technicals provided support for stocks' earlier rebound, and historical patterns suggest the possibility for strength in 2019.

LPL Research has slight preferences for large cap over small, value over growth, and EM over developed, and leans cyclically—favoring industrials, financials, and technology.

Market valuations remain favorable, with the S&P 500's forward 12-month P/E ratio within historical norms. LPL Research's S&P 500 EPS forecast is $170 for year-end with a year-end S&P 500 fair value estimate at 3,000. ■

As EVP and Chief Investment Strategist of LPL Financial, John Lynch leads the market and economic research efforts of LPL Research and is responsible for the firm's strategic and tactical investment advice.

Learn more at go.joinlpl.com.

LPL Financial

Rx for Financial Un-wellness

By Bob Carroll
MASSMUTUAL

Americans worry about a multitude of threats and risks but one thing scares them more than almost anything: money problems.

Adults with annual household incomes of between $35,000 and $150,000 say a financial emergency is one of their biggest concerns, more than terrorism, tornadoes or crime, according to the MassMutual Middle America Financial Security Study[1]. Only a serious illness suffered by themselves or a family member worries them more than money.

It's an anxiety that financial advisors are ideally positioned to help calm, especially those who support 401(k)s and other workplace retirement plans. Employers are realizing that their employees' personal financial problems are not only becoming more acute, they're causing distractions on the job.

Consider that four in 10 workers say money problems accompany them to work at least once a week, according to the study. One in five people who earn less than $45,000 report toting financial issues to work every day.

Those concerns are swamping many Americans' ability to save for retirement. Many workers can't begin to even think about retirement planning until they solve shorter-term problems such as suffocating student loan debt and unexpected medical bills. One in five middle-income workers have less than $1,000 in emergency savings and half have less than $2,000. That means a leaky roof, a broken transmission or a visit to the emergency room may virtually wipe out many people financially.

Advisors can help without ever having to pick up a hammer, wrench or stethoscope. Instead, advisors can conduct financial education sessions at the workplace on topics such as budgeting, debt management, health savings accounts, saving for short-term needs and, ultimately, saving for retirement. Tackling the near-term problems sooner rather than later ultimately helps people address their longer-term needs.

Insurance and financial services firms, as part of a clarion call to enhance financial wellness at the workplace, are rolling out new tools, products and support. The most dynamic tools help workers sort through their personal financial issues, get a handle on their most pressing needs, and then prioritize their financial and benefit choices. Workers get a game plan for financial security that is updated as their lives change over time.

New, nontraditional products are also being introduced

to complement life and disability insurance offerings to help people enhance their financial wellness, including tuition loan assistance, health savings accounts, debt and budget management. Most are available on a voluntary basis, at no cost to the employer.

Once someone starts feeling more secure, the future suddenly looks brighter and retirement appears more attainable. The benefits of saving in a 401(k) make more sense, especially the opportunity to defer income and earnings from taxation, qualify for available matching contributions, and watch the miracle of compound interest work over time.

Advisors and employers know all too well the many challenges of driving participation and savings in 401(k)s and other employer-sponsored retirement plans. But the biggest challenge—a lack of financial wellness—can be addressed with the right combination of tools, education and products to solve shorter-term financial needs. And that leaves one less thing to worry about. ■

Bob Carroll is Head of Distribution for Massachusetts Mutual Life Insurance Company's (MassMutual) Workplace Solutions business, which provides retirement savings plans and voluntary benefits.

1. MassMutual Middle America Financial Security Study, 2017, www.massmutual.com/-/media/files/MM-Financial-Security-Study-GEN-POP-617

Learn more at www.massmutual.com.

MassMutual

Finance 2019: AI Takes Center Stage

By Dinesh Venugopal
MPHASIS

Over the last few years, financial firms have gained tangible efficiencies with robotic process automation (RPA). But the transformation has just begun. With artificial intelligence (AI) making its appearance in finance, the leading role of RPA is now being re-considered. In 2019, enterprises that combine process automation with AI stand a chance to write a resounding success story in several ways.

Tapping into a growing audience for innovative payments

Jumping on the bandwagon are next-gen customers, who are embracing new modes of payment. These customers are quick to learn and eager to watch how new digital payment solutions will play out. A case in point is how a one-of-a-kind smart payment terminal provider—Poynt, founded in 2013—has disrupted the market to ship over 100,000 devices and poised to process US$20 billion transactions next year.[1]

By including AI in the technology stack, enterprises can break the cycle of complacency. It offers providers the power to make payments profitable and secure. By enabling deep analysis of data, financial enterprises can even gain real-time insights to accurately cross-sell payment products, rapidly analyze payment histories, fortify transactions, and comply with regulations.

Meeting expectations with AI-based advisory

As customers experiment with new payment solutions, a new chapter in wealth management is unfolding. Historically, asset managers relied on Excel sheets and traditional bots to transform high-net individuals' investments. Today, AI is changing this. Behind the scenes, this technology is driving quick, valuable insights that offer more power to robo advisors. Such AI-backed advisors can now deliver customized, high-return solutions at a low cost. At the same time, the technology offers visibility into a client's entire financial portfolio, delivering insights that facilitate regulatory compliance. It also enables wealth managers to move from product-based offerings to an end-to-end solution. In this situation, AI-powered platforms like ForwardLane provide a win-win situation for both robo and human advisors—helping them both up their game.[2]

Delighting customers with virtual assistants

When we think of AI in the front office, we picture AI agents working shoulder-to-shoulder with human customer representatives. While this is an ideal situation, financial institutions and technology must evolve further to make this vision a reality. Soon though, AI will play the lead role in driving most customer interactions through virtual assistants that understand the context with which a human keys-in information or speaks. As per Forrester's recent survey, 40 percent of enterprises are planning to combine RPA and AI to create digital workers in 2019.[3] These intelligent assistants, like Bank of America's Erica, will further drive conversations by remembering, empathizing, and advising customers like no human has done before.[4] What's more, they will continue to learn from each interaction, making the next conversation more beneficial.

These examples only provide a preview of the bigger picture of AI applications. Remember, where there is data, AI cannot be far behind. So, here is looking forward to a time in the future where financial institutions—both established and new ones—will make AI the main character in their plot to gain competitive advantage. ■

Dinesh Venugopal is President of Mphasis Direct and Digital.

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4. yourstory.com/2018/05/consumer-banking-ai-virtual-assistants

Learn more at www.mphasis.com.

Midyear Outlook: Standing at the Crossroads

By Mark Hackett
NATIONWIDE

Despite slowing global growth and ongoing trade uncertainty, the U.S. economy continues to show resilience in the late stage of the current growth cycle. This expansion has now equaled the longest on record, but the pace of growth in this cycle has been the slowest in the last 70 years. That may not sound too inspiring, but slow growth could mean there's enough strength left in the expansion to run a little longer.

Plus, we're not yet seeing shifts in several indicators that typically occur at the end of growth cycles. For example, stock investors really haven't shown much "irrational exuberance" like they did at the market peaks in 2000 and 2007. If anything, they've been more risk averse lately, taking money out of equity funds in favor of safer havens like high-quality bond funds. The only indication of end-of-cycle activity we see at present is in a slight uptick in IPO and M&A activity.

Financial markets seem to be at a crossroads after recovering from last year's turbulence. There's not much negative news embedded in the stock market, as evidenced by the benchmark indexes trending toward record territory in June. The sharp deterioration in earnings we saw late in 2018 seems to have stabilized. This is an important step for positive stock returns to continue.

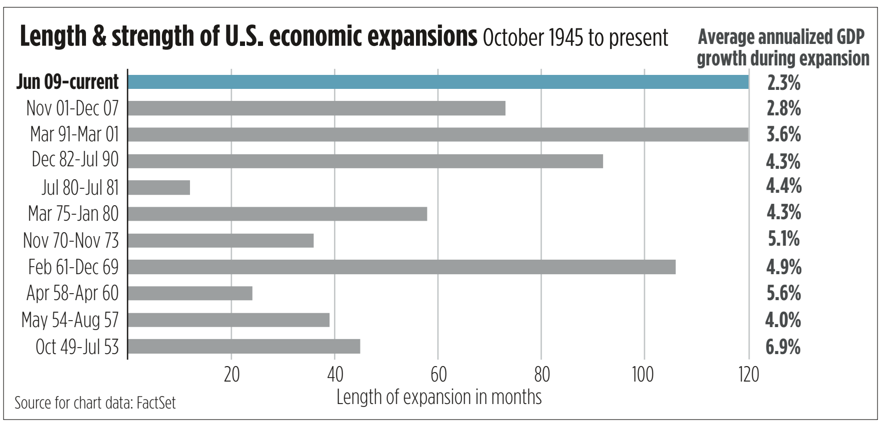
Stock investors have high hopes for rate relief from the Federal Reserve; at the midpoint of the year, the general consensus now gives a nearly 100% chance of a Fed rate cut before the end of 2019. Equity investors are likely to be disappointed if that doesn't happen. Similarly, if the trade war remains unresolved six months from now, they may dim their outlook for the future.

The bears have found a home in the bond market. Long-term interest rates were under pressure for much of the 2nd Quarter. As of this writing, the 10-year Treasury rate is more than one full percentage point lower than where it was last November (3.2%).

Higher-quality and lower-volatility sectors and stocks have performed well as of late, as they've assumed leadership from higher-beta and momentum sectors. We typically see a shift in performance like this in a late-stage growth cycle, so we anticipate this trend to continue in the second half of 2019.

We also think we may see greater volatility in stock markets later this year. Investors can find plenty of reasons to worry, from ongoing trade wars, to rising geopolitical tensions, to slowing global growth. There's also an election further out on the horizon, and the noise around it is already building.

Shifting your asset allocation based on headline events usually doesn't end well. It's important for investors to recognize the emotions these events can trigger and not to let them guide their investment decisions. They would be better served by tuning out the noise and focusing on the fundamental drivers of stock returns. ■



Mark Hackett, Nationwide Chief of Investment Research, leads Nationwide's capital markets analysis and thought leadership initiative.

Four Ways to Help Clients Prepare for a Longer Retirement

By Carlo Cordasco
NATIONWIDE RETIREMENT INSTITUTE

Life expectancy continues to increase with each generation. As a result, your clients could have more time to enjoy with family, pursue their goals and seek out new experiences. However, significant anxiety can quickly offset all these positive expectations if they don't feel prepared for 30 to 40 years in retirement.

With these strategies, you may be able to lessen the anxiety your clients feel about making their money last.

1. Delaying Social Security

Whether they decide to keep working or retire as planned, you may want to suggest that your clients wait to start taking their Social Security benefits Although they can begin them as early as age 62, delaying until their full retirement age (65, 66 or 67, depending on their birth year[1]) will ensure they receive their full benefit. Waiting a bit longer until age 70 could increase their monthly benefit by as much as 76%.[2] Because Social Security provides a guaranteed stream of income for life, you and your clients will want to make the most of it.

2. Preparing for long-term care

Your clients probably won't want to think about a time when they may need help dressing and bathing, but it's important for you to start the conversation. The fact is that people turning 65 today have a 70% chance of needing long-term care at some point[3]. Since Medicare doesn't cover most types of long-term care, your clients will need your help preparing to have the necessary funds available when needed.

3. Using HSAs as investment vehicles

Any clients covered by a high-deductible health insurance plan may have access to a health savings account (HSA). And there's a good possibility they're overlooking its value as a retirement savings vehicle—many do. But you can help your clients understand that money left over after they pay current medical expenses may accumulate for future years and retirement. There's no use-it-or-lose-it limitation. Plus, they can invest it into mutual funds or exchange-traded funds for more growth potential.

4. Testing portfolios for tax efficiency

Encourage your clients to further diversify their portfolios so they include taxable, tax-deferred and tax-free investments. You'll be able to structure their withdrawals with taxes in mind, helping them control how much they pay in taxes and when they pay them. Establishing a tax-efficient income strategy like this could extend the life of their portfolio up to six years.[4]

For an in-depth discussion, review our longevity white paper at *nationwidefinancial.com/longevity*. ■

Carlo Cordasco is the Vice President of Nationwide Retirement Institute, with more than 20 years financial experience, Carlo engages with investment professionals as they seek answers to managing the critical task of retirement income planning.

Investing involves market risk, including the possible loss of principal.

Federal income tax laws are complex and subject to change. The information in this memorandum is based on current interpretations of the law and is not guaranteed. Neither Nationwide nor its employees, agents, brokers or registered representatives give legal or tax advice.

1 Social Security Administration (2019).

2 Based on an individual with an FRA of 66 and comparing filing at age 62 for 75% of the primary insurance amount versus filing at 70 for 132% of the primary insurance amount.

3 "How Much Care Will You Need?" U.S. Department of Health and Human Services (Oct. 10, 2017).

4 "Tax-Efficient Withdrawal Strategies," Cook, Meyer and Reichenstein, CFA Institute publication, Volume 71, No. 2 (2015).

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3 Habits to Help You Better Connect with Your Clients

By Namara Dafney
NATIONWIDE FINANCIAL

Are you speaking the same language as your clients?

Be honest in your answer—providing your clients with an exceptional experience is more important than ever, and it all starts with communication.

Help your practice grow in 2019 by adopting these three (easy!) habits.

Listen, listen, listen

The most common approach to listening is "me" listening, in which awareness is primarily on ourselves—we listen solely so we can respond. Though useful, "me" listening won't move your client interactions beyond surface-level conversation.[1]

Global listening, on the other hand, can facilitate a deeper conversation. It requires you to focus on verbal and non-verbal cues, as well as emotions, and to use your personal knowledge and passions, unique experiences and even intuition to facilitate the discussion.[2] By using all your senses, you can get to the root of your clients' true needs and goals.

Practice empathy

Defined by Meriam-Webster as "the act of understanding, being aware of, being sensitive to the thoughts and experiences of another person,"[3] empathy is putting yourself in another person's shoes.

Not sure where to start? Share your own retirement planning experiences, or those of a friend or family member. Use personal anecdotes or case-study examples to help your clients feel comfortable sharing things they may typically feel inclined to hold close to the vest.

Ask questions

You've listened, and you've shared your own experiences. Now, ask the right questions.

Questions are the key to building relationships, unlocking insights about your clients and, ultimately, speaking the same language. Here's one to get your started: What does a weekday look like in retirement? What about a vacation? Go beyond the basics to determine what your clients will really need in retirement.

For more resources from Nationwide, visit *blog.nationwidefinancial.com*. ■

Namara Dafney is a Sales Coaching & Development Consultant at Nationwide Financial.

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Learn more at blog.nationwidefinancial.com.

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Five Factors to Drive Greater Growth in Challenging Markets

By Craig Hawley
NATIONWIDE ADVISORY SOLUTIONS

More than a decade after the Financial Crisis of 2008, volatility is again top of mind for advisors and investors alike, and uncertainty is on the rise, according to the latest Special Report from our fifth annual Advisor Authority Study of more than 1,600 RIAs, fee-based advisors and individual investors. Heading into the second half of the year, here are five trends to confront the complex dynamics of a challenging market, refine your practice, drive greater growth—and greater profitability:

Volatility has returned with a vengeance—and more investors seek the "safe haven" of guided advice. As the partisan divide grows and trade wars intensify, investors and advisors alike say lawmakers at home and abroad are among top drivers of volatility. Turbulent markets bring fear—but also buying opportunities. Two-thirds of investors expect volatility to rise and say it's the number-one reason they'll work with an advisor. Nearly nine in 10 advisors have a strategy to protect clients against market risk, and say diversification is used most—followed by fixed annuities, fixed index annuities, liquid alternatives and smart beta ETFs.

The most successful RIAs and fee-based advisors create their competitive edge through specialization and holistic planning. As fee compression creates greater pressure, asset management becomes more commoditized, and markets more turbulent, you can't win on performance alone. Become the quarterback of your clients' financial life by offering holistic planning—including tax planning, estate planning, risk management and insurance planning. Become a subject matter expert, focused on a specific generation, profession or lifestyle. As experts say, the advisor who tries to serve everyone ends up serving no one.

The "Retirement Income Challenge" demands durable solutions. As 10,000 Boomers per day retire, outliving their savings is one of their biggest fears. Protect a portion of the portfolio with a guaranteed income floor, so the rest can be invested more aggressively, to fund a retirement that could last three decades—or more. In fact, roughly four in 10 advisors use Single Premium Immediate Annuities (SPIAs), Deferred Income Annuities (DIAs) and Qualifying Longevity Annuity Contracts (QLACs) to protect clients' retirement income.

Nationwide® is on your side

To enhance value for clients, increase profitability and drive growth, proactively shift fee models. Moving beyond the basic fee for AUM model, the most successful RIAs and fee-based advisors diversify with retainers, fees for specific services, hourly fees and flat fees. They don't compete on price, but they will reduce fees for the right segment of younger clients and heirs, as an investment in the future of their firm.

Harness technology and bridge the "AI Divide." Top performing RIAs and fee-based advisors invest more in technology and combine high tech with the human touch to build a more efficient and more scalable practice, attract and retain more clients—and create a competitive edge. But even the most tech-savvy investors still say that when working with an advisor, nothing can replace face-to-face.

Success in this challenging market comes to those who can create a competitive advantage for their firm and safe havens for their clients through holistic financial planning and unbiased advice that puts clients' best interests first. So adapt now—or be left behind. ■

Craig Hawley is Head of Nationwide Advisory Solutions.

To learn more please visit www.nationwideadvisory.com.

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Proper Asset Allocation is Essential in an Uncertain Economy

By Sherry Delaney
NEWMARKET WEALTH MANAGEMENT

Investing is often looked at as a zero-sum game. In truth, today's win can quickly turn into tomorrow's loss. The best way to avoid roller-coaster returns is to ensure that your asset allocations are rooted in strong fundamentals. Take the current market. After a bumpy end to 2018, the U.S. equity market rebounded in the first part of the year, with major asset classes priced in the fair value-range. Despite some ups-and-downs in the spring, it's a stark contrast from the big market swings that helped to close out last year.

Heading into the second half of the year, we're in a slower period of growth, with strong private market returns and low inflation expected to continue for the foreseeable future, albeit with slower earnings per share. These aren't the boom-and-bust cycles we saw last year, and we can be thankful for that.

When pricing is cheap, investors tend to scoop up value investments in larger numbers. Of course, what goes up, must come down and vice versa. When prices begin to correct, as they always do, exuberance wanes, returns slow, and investors typically find themselves with portfolios that are overweighted to a single asset class. In short, you can have too much of a good thing.

A well-thought-out asset allocation can protect against these big pendulum swings. We believe that clients who have the right asset allocations can generate steady and consistent returns that will allow them to maintain their lifestyle. The key is to tie the portfolio mix to the investor's goals and stage of life.

For example, if you're in the wealth-accumulation phase, the slower-than-expected returns in the current market cycle will have little to no effect on your long-term results. Alternatively, income-producing clients are living on what they earn. They'll feel the pinch when the downturn comes. We'll need to work harder to generate income without touching principal or increasing the overall volatility of the portfolio.

In the latter case, we often look to private credit, which tends to be higher yielding but with less liquidity. Private credit is ideal for clients in the distribution stage of life, but may also work for people still accumulating wealth. If you're a retiree living on income, liquidity may not be a top priority. What's most important is having an active and predictable stream of income.

Looking forward, there is no denying that global growth has slowed. Escalating trade tensions between the U.S. and China have created a sense of uncertainty in the market. Now

more than ever, it's important to have diversified portfolios that can withstand volatility. We've seen a huge concentration of wealth in the so-called FAANG stocks, and tariff disputes or any number of other issues could lead to a tipping point. That's why it's important for asset allocations to be appropriately balanced to include stocks, private issues, REITS, BDCs and MLPs, among the mix.

However, the fundamentals of the U.S. economy remain strong, and the outlook for the remainder of 2019 is positive both for wealth-accumulating and income-producing clients. With subdued inflation, the Fed isn't likely to make any sudden moves. They don't like to make herky-jerky decisions, especially with next year's election looming. We're going to be in a holding pattern for some time. Take this as an opportunity to check your asset allocations to make sure that they're working for you at whatever stage of life you're in. ■

Sherry Delaney is Co-Founder and Chief Operations Officer at NewMarket Wealth Management, a Southern California-based, fee-only firm that serves a diverse array of high-net-worth clients.

Learn more at www.newmarketwealth.com.

NM NEW MARKET WEALTH MANAGEMENT

Lean into Market Volatility

By Jae Yoon
NEW YORK LIFE INVESTMENT MANAGEMENT

Volatile and rangebound

In the past year, volatility has become more, well, volatile. Investors run for the door when fears of trade tensions or slowing growth dominate, and celebrate when they expect monetary or fiscal support. Meanwhile, liquidity has tightened in some markets, prompting sharper price movements as volatility occurs.

We expect moderate to elevated levels of market volatility throughout the remainder of the U.S. economic cycle. But we also expect economic growth (no recession) for at least another 12 months. What is an investor to do?

While it's too early to de-risk entirely, investors should consider shifting towards securities that rely less on price appreciation to add value.

The new defensive strategy

The tried and true defensive strategy of the past—"safe haven" fixed income securities—offers protection against equity sell offs. However, these securities also come with some risks; in a low growth and low yield environment, traditional income-generating assets could deliver below-average returns.

One thoughtful approach to improving the overall income-generating capacity of your portfolio calls for diversifying sources of yield beyond traditional investment grade bonds.

Build income across asset classes

To begin, investors can combat market volatility by thinking carefully about their credit profile. The distribution of potential returns on fixed income securities, for example, has a negative skew; you generally can't make much more beyond interest payments, but you can lose your principal in the event of a default. The secret to success in beating a benchmark is therefore in avoiding those defaults.

Next, investors can turn to equities to contribute yield, focusing on companies that consistently generate levels of free cash flow. This means identifying real businesses making real sales to deliver real distributable profits. The greater the dividends, the less dependent the stock is on strong earnings growth and expanding price multiples to increase total return. In other words, your equity return is less reliant on investor sentiment or market stability.

Finally, investors may benefit from securities offering further diversification. Low overall returns and high correlations between asset classes mean that even more creative diversification opportunities, such as municipal bonds, real estate, and infrastructure investments, can help investors to meet their investment goals.

Investor behavior

During times of volatility, investors tend to run for the hills, but staying invested is often the best option for overcoming short-term market stress. First, the market has historically posted significant gains after pullbacks, leaving the investor missing out on both price appreciation and dividends. Second, because of compounding, missing a big market move upward can significantly reduce returns.

Overall, waiting in cash is inappropriate for most investors' goals—particularly for those looking to build long-term wealth. Utilizing lower volatility strategies like the ones described above can build investor confidence to maintain or even add to positions as times get tough. ■

Jae Yoon is Chief Investment Officer of New York Life Investment Management (NYLIM).

Amid Improved Market Conditions, Major Concerns Remain

By Jim McDonald
NORTHERN TRUST

The investing world seems a better place now versus the gloom at the beginning of the year. But the big questions haven't gone away.

Q. WILL THERE BE A RECESSION IN 2019?

A. We didn't see recession happening at the beginning of the year, and we still believe that recession is not in the cards over our one-year tactical horizon. This largely is because the Federal Reserve's about-face this past January, when it halted the trend of rate increases in 2018 and prepared investors for rate cuts. We think there will be three cuts before the year is out.

We expect lower interest rates to offset the softer growth environment, allowing risk assets to remain attractive. The bond market has been well ahead of the Fed in anticipating the need for lower interest rates.

Q. WHAT WILL HAPPEN WITH STOCKS?

A. We previously said that all depended on the Fed. Its decision to stop increasing rates spurred a double-digit rally in global equities this year. We believe U.S. equities in particular will continue the trend of outperformance with more durable growth than the rest of the world can currently offer. Anticipated rate cuts should further boost U.S. stocks.

We also expect global infrastructure to benefit from low interest rates while presenting less downside risk than other equities. Our risk cases continue to highlight the disruptive potential of a return of inflation, along with the upside risk case of a trade armistice being reached between the U.S. and China. This upside risk case could actually improve the outlook for global growth and investor risk appetite.

Q. WHAT ABOUT BONDS?

A. Broadly speaking, bonds will be hindered by a low rate starting point, but at the same time, we expect them to be supported by continued low interest rates (meaning no near-term hit to principal). As such, we believe bonds will continue to provide positive returns, but see better opportunities in interest-rate sensitive risk assets such as global listed infrastructure.

We modestly reduced our high yield allocation this month to manage risk (our previous overweight was very significant) and better position the portfolio for continued low interest rates. We are still overweight versus our strategic portfolio, however, as we value the asymmetric return profile of high yield in the current environment.

Q. WHY WILL 2019 BE DIFFERENT FROM 2018?

A. Events over the last six months have answered a lot of that question. 2018 was the year of de-risking. With the Fed's January pivot to a more accommodative stance, risk-taking sentiment has improved.

But, it's important to note that U.S. President Donald Trump's reenergized assertiveness on the tariff front has taken some shine off the economy's "goldilocks" underpinnings. We now believe global growth will modestly disappoint investor expectations.

However, political impacts on fundamentals should be partially diffused through continued low rates, enabled by stubborn low inflation and central banks (importantly the Fed) begrudgingly accepting the bond market's message. As a result, we maintain a moderate overweight to risk, tilted towards U.S. assets and concentrated in interest-rate sensitive investments and "lower risk" risk assets such as high yield.

For additional insights from Northern Trust Asset Management, visit *www.northerntrust.com/united-states/what-we-do/investment-management.* ■

Jim McDonald is Northern Trust Chief Investment Strategist.

Responsible Investing: An Effective Way to Align Your Values with Your Financial Goals

By Amanda E. Agati, CFA® and Jeffrey D. Mills
PNC FINANCIAL SERVICES GROUP

Responsible investing, or RI, has been around for decades, but demand has been building now that there are more mainstream investment options available, and that number is growing. Companies are also becoming more transparent about the socially responsible decisions they make. Just in the last two years alone, there has been a roughly 38% increase in investments that incorporate RI-oriented principles, according to The Forum for Sustainable and Responsible Investment. We believe RI is helping to change the dynamics between investors and the ways they achieve their financial goals, in alignment with their values.

The exponential growth in RI over the last few years has been driven by secular demographic shifts, alongside the largest generational wealth transfer in history. Now these secular forces are giving new groups a lot more say and control in how they create and manage their wealth—and RI is a top priority for them. Indeed, markets are changing and will likely continue to do so. As markets change across time and space, we believe investors who don't adjust their portfolios accordingly may run the risk of missing out on potentially valuable investment opportunities. RI presents both new challenges and opportunities for investors in 2019 and beyond.

Defining Responsible Investing

Responsible investing can mean different things to different investors. We view RI as a goals-based investment strategy that:

- proactively supports certain values or causes;
- excludes or restricts certain portfolio exposures that may conflict with those views; and/or
- defines a specific, targeted impact and allocates capital toward that objective.

These are not mutually exclusive concepts, and investors may want to incorporate some combination or all of them into their portfolios. RI is not an investment philosophy or separate and distinct asset class. RI requires a keen understanding of values coupled with portfolio knowledge and the ability to look beyond traditional portfolio construction and customize to the investor's RI view. Not every issue or concern is always best addressed within an investment portfolio, but some may be. Today, RI can be implemented at the asset class, investment manager, and security selection levels.

Not a One-Size-Fits-All Solution

If RI is an important goal for you, be mindful of the adjustments made to your portfolio. Considering all causes and values in your investing strategy may potentially shrink the investable universe so much so that it puts your portfolio at a disadvantage, possibly making it harder to achieve your long-run financial goals. Remember, every investor's financial destination will most likely be different, and there is no one-size-fits-all solution when implementing an RI portfolio. Working closely with your investment advisor can help provide guidance and establish a roadmap for your financial journey that includes responsible investments today and for the long term. The RI landscape has expanded significantly, and we expect the future to look much different from the past. ■

Amanda E. Agati, CFA® and Jeffrey D. Mills are Co-Chief Investment Strategists, PNC Financial Services Group.

Learn more at www.pnc.com/en/personal-banking/wealth-management/responsible-investing.html.

PNC®

What You Don't Know About Compliance Can Hurt You—But Technology Can Help

By Kylee Beach
ORION

According to the 2019 Exam Priorities as outlined by the SEC's Office of Compliance Inspections and Examinations (OCIE), audits of advisors are on the rise—and only going up.

In fiscal year 2018, OCIE examinations of SEC-registered investment advisers increased to 17 percent of all registered advisers, a bump up from 15 percent in 2017. Examinations are increasing even as the number of advisors is increasing and the money they're managing increased to total $84 trillion.[1]

Additionally, OCIE is using technology and data analytics to assist it in identifying which firms to examine, and how often.

So in this world of enhanced scrutiny, many advisors are asking: "What should I do to protect my firm and my clients?"

Claiming ignorance on your firm's processes is not a defense an SEC examiner wants to hear, so when it comes to a potential audit, it's essential for firms to have a solid grasp of not only what their compliance manual says, but how they can demonstrate compliance.

Keeping Track of the Unknown

One area of focus for SEC examiners relates to the firm's Code of Ethics and how the firm monitors compliance by employees. This includes oversight of the activity within employees' personal trading accounts.

According to Rule 204A-1 (better known as the "Code of Ethics" rule), every advisor firm must establish, implement, and enforce a written code of ethics for its employees. A key part of every firm's Code of Ethics is the requirement that all employees submit transaction and holdings reports to the firm, so that compliance officers can compare employee trade activity to that of the firm. Given a firm's fiduciary responsibility to its clients, it's critical that employees are acting in ways that avoid conflicts of interest to their client accounts or otherwise put their interests ahead of a client's.

Some of the chief concerns that Rule 204A-1 addresses are front-running trades based on insider information as well as the purchase of restricted securities. The trouble is, a firm's good standing and ability to avoid these scenarios most often rests on employees adhering to pre-clearance policies.

But relying on employees to self-report is never an exact science. Firms who base their daily processes on manual processes are more likely to put themselves into harm's way than to protect their clients.

Gain Insight with the Right Technology

In years past, advisory firms could claim that tracking employee conduct in real-time was a difficult task. While software systems were put in place to pre-approve trades and track accounts, the inability to automate processes also meant that many firms did not or could not adopt the stringent type of reporting necessary.

Today, technology makes it simple for advisors to access employee accounts and confirm that they're operating by-the-book in every instance.

Advisors who don't leverage their technology to perform frontrunning reviews put their firm's future at risk. By integrating their trading tools with their portfolio accounting technology, advisors can keep their review simple and centralized.

When it comes to compliance, knowing what you don't know is less than half the battle. It is the responsibility of each firm to identify the unknown, and then take action by using technology to secure its future.

Want to learn more? Contact Orion at empower@orion-advisor.com or 402.496.3513. ■

Kylee Beach serves as General Counsel for Orion where she oversees various legal matters affecting Orion and its affiliated companies, including contracts, intellectual property, and other corporate matters.

1. 2019 Examination Priorities. U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations. www.sec.gov/files/OCIE%202019%20Priorities.pdf

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SEC Exams of Advisors are Rising

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The OCIE will examine a record number of registered advisors this year.

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Three Continuing Trends in the RIA Tech Space

By Dave Miller
PORTFOLIO PATHWAY

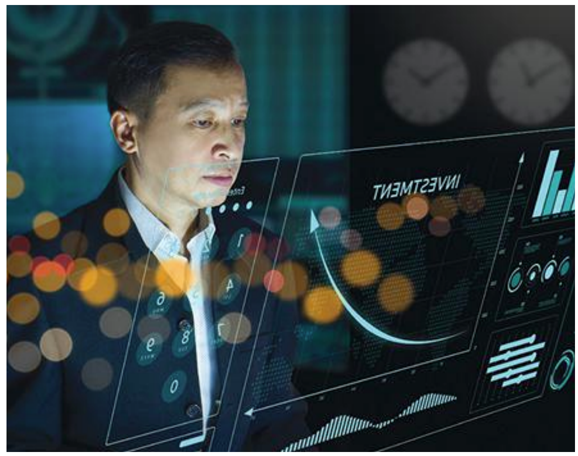
As we enter the second half of 2019, there are several key trends that continue to affect the RIA technology space.

Data security – Personally Identifiable Information (PII) is a term that we hear more frequently these days. With a new breach seemingly occurring every week, firms that hold this type of highly sensitive data are not only tightening their security protocols, but also creating a stricter due diligence process for integrating third-party technology. We expect to see increased security scrutiny from custodians and banks, to the vendors for which their client's PII will be located. Advisors will also play a larger part in security due diligence. By selecting their client's custodian, CRM, PMS, etc. for which their client's PII will be located, advisors will need to make security due diligence an important part of the vendor selection process as regulators continue to increase the scrutiny on the due diligence processes of advisory firms.

Industry Consolidation – M & A activity continues to remain significant. On the advisory side, we continue to see growth through the acquisition of assets. Given the pricing pressure on advisory fees and increased security, data and technology costs, running an advisory firm has become less profitable. As a result, volume is becoming a part of many firms' growth strategy. While technology costs have generally gone up, firms have been able to add capacity at a beneficially disproportionate level, offsetting margin compression. The advisor technology market has thrived in part because of this activity, which in turn has attracted strategic buyers making fintech acquisitions its own trend. These acquisitions have allowed technology platforms to add components to their offering rather than having to develop them. This in the hopes of winning the race to an all-encompassing, end-to-end digital solution. Both the advisory market and the fintech market should continue on the upswing of the business cycle for the foreseeable future.

The Rise of the All-in-One Platform – Advisors are increasingly outsourcing more of their assets through dual-contract agreements, direct sub-advisory agreements, TAMPs and even robos. While a few platforms are close to offering a true end-to-end solution, most are either limited or messy for advisors to manage.

Some advisors believe in the best of breed concept, leveraging integrations between technology providers. While some integrations work well, others work just enough to market



the fact that they exist. The increased security requirements and due diligence required by both the technology providers and the advisors themselves may cause the integration trend between third parties to slow. Improvements in end-to-end platforms may also help slow this trend.

In an effort to grow, more custodians are warming up to the idea of securely opening up more APIs for third party technology providers. This open mindset by custodians, allow third party platforms to offer a more complete package. As a result, we may see a shift from advisors piecing together so-called best of breed products through integrations, to leveraging a full platform. ■

Dave Miller is the CEO of wealth management platform and client portal, Portfolio Pathway. He has more than 23 years of experience in financial services.

Has Volatility Met its Match? The Case for High Quality Dividend Growth

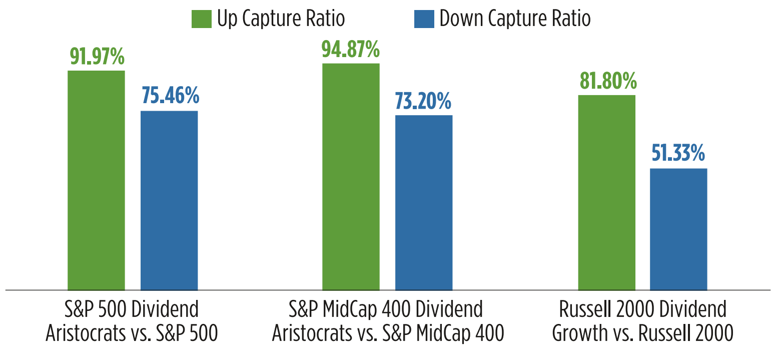
By Kieran Kirwan, CAIA
PROSHARES

The last two years presented investors with a tricky proposition—how does one manage a portfolio in a market that can't seem to make its mind up? 2017 saw the S&P 500 produce 20%+ returns with very low volatility. 2018 saw volatility return, and most stock market indexes declined. Q4 of 2018 saw a significant drawdown while Q1 of 2019 saw an equally impressive rally. In a market with such sudden reversals, it's understandable investors are weary.

High-quality dividend growth stocks may provide an answer. Many investors are familiar with the income benefits of dividend paying stocks, especially when rates are low. Over time, dividends have accounted for about a third of S&P 500 total returns. So yes, companies that pay a dividend are nice. But companies that manage to ***grow*** their dividends over time are relatively rare and especially attractive. Over time, these stocks have outperformed companies that simply pay a dividend and have done so with lower volatility[1].

Dividend Growers Delivered Strong Up/Down Capture Ratios

Index Inception – March 31, 2019



Source: Morningstar. S&P 500 Dividend Aristocrats: 5/2/05-3/31/19. S&P MidCap 400: 1/5/15-3/31/19. Russell 2000 Dividend Growth: 11/11/14-3/31/19. Index returns are for illustrative purposes only and do not represent fund performance. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results. For fund performance current to the most recent month-end, visit ProShares.com.

Companies that consistently grow dividends tend to be high quality with long histories of profit and growth, strong fundamentals and stable earnings. These features have generally enabled dividend growers to withstand repeated market turmoil and still deliver strong returns with lower volatility. Upside and downside capture ratios are a good metric: Below, we show how dividend growth strategies across large-, mid-, and small capitalization ranges have delivered attractive performance in both up and down markets.

Investing in Dividend Growth Now

The market seems to be facing a critical crossroads as we head into the latter parts of 2019. Healthy economic underpinnings of solid employment and a resilient consumer, along with reasonable equity valuations, appear able to support the market. However, an extended bull market, decelerating corporate earnings, and geopolitical matters warrant some caution. High-quality dividend growth stocks across the market cap spectrum may provide investors with a strategy that can weather volatility. ■

Kieran Kirwan is Director of Investment Strategy at ProShares.

This information is not meant to be investment advice.

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1. Source: Ned Davis Research

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Accessibility Is the Name of the Game

By Jim Mullery
PRUDENTIAL FINANCIAL

Registered investment advisors (RIAs) who long favored simplified asset products like ETFs and mutual funds for their clients are warming to assured outcome strategies like annuities and life insurance, challenging the insurance industry to provide simplified, personalized solutions and service that fit within a holistic financial plan.

RIA clients say they want to ensure they meet their retirement goals but are equally keen to find solutions that enable them to leave an inheritance to their heirs. Data from LIMRA shows consumers are already buying annuities at record rates to help meet retirement income needs. And in times of market uncertainty, many consumers are leaning toward the kind of financial guidance and fiduciary care RIAs provide. Consumers increasingly favor independent advisors—more than 25 percent of advisors' new clients are self-directed or new to investing, according to the TD Ameritrade Institutional 2018 RIA Sentiment Survey.

We're moving to a world where it's easier for customers to compare products, appetite for risk is shrinking and demand for flexible, transparent solutions is growing. Comparing insurance products with other investments is a major hurdle for our industry. Consumers and financial professionals can't consider products if they don't understand how they fit into a financial plan that meets their needs.

Insurers hear a lot about breaking down complexities and keeping offerings simple. That drive for simplicity and flexibility applies in terms of optionality and accessibility as much as product design. Incorporating insurance products into the wealth management space is critical to delivering holistic financial planning.

The future of the insurance industry lies in expanding the relevancy and reach of solutions. Integrating products like life insurance and annuities into a holistic financial plan must become as easy as selecting a basket of ETFs for advisors and consumers. This means embedding insurance product offerings into how—and where—financial professionals sell today. Insurtech platforms, such as Envestnet iX, are partnering with product manufacturers and reaching out to advisors to solve the challenge of access. These systems equip financial professionals with easy access to a range of insurance products on the same platform they use to manage client accounts.

Insurers are increasingly looking for new ways to partner with RIAs—whether via product design, platform integration or service model innovation—to ensure these financial professionals can seamlessly tap into products that enable them to deliver understandable, transparent solutions customizable for individual client needs.

Bringing protection and guaranteed income products to market via existing platforms financial professionals use today will help RIAs deliver cohesive and consistent advice to clients by providing simple and transparent access to these solutions where they can't today.

As the insurance sector continues to transform, expect to see more focus on platforms that are a one-stop shop for financial professionals, solutions that are more flexible, and holistic approaches to wealth management that address needs throughout consumers' lifetimes. ■

Jim Mullery is Chief Sales and Distribution Officer for Individual Solutions Group at Prudential Financial.

Learn more at www.prudential.com.

Prudential

Being in the Right Place at the Right Time

By Lawrence V. Adam III, CFA®, CIMA®, CFP®
RAYMOND JAMES

Twenty-five years after the release of "Forrest Gump," the iconic movie's themes remain relevant in today's world. Forrest's mother's observation that **"Life was like a box of chocolates"** is especially true of today's markets: you never know what volatility-inducing headline you'll hear next.

President Trump's tweets, a fickle Federal Reserve (Fed), recessionary fears, and the 2020 U.S. presidential election top the list of domestic uncertainties. Add in geopolitical risks (Brexit, trade policy, Italian debt, elevated tensions with Iran, and the Venezuelan economic crisis), and you have a recipe for heightened volatility. With much of this being headline noise, disciplined investing remains crucial to achieving financial goals.

Forrest's quote **"You've got to put the past behind you before you can move on"** parallels our economic outlook. We're broaching the longest economic expansion in U.S. history, and can no longer count on tax cuts, quantitative easing, or early-cycle "bounce back" growth to support the markets. We expect the expansion to continue and don't foresee a recession in the next 12 months. Our 2019 U.S. GDP growth estimate is 1.9%, backed by the likelihood of two Fed rate cuts, elevated confidence, robust employment, and healthy consumer spending.

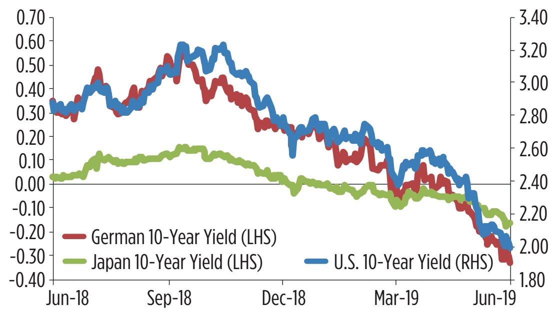
The bond market is echoing, **"What's normal anyways?"** Past economic expansions and record budget deficits meant higher interest rates. Now, global rates remain depressed with central bank bond purchases leading to over $13 trillion in negative-yielding sovereign debt. Demographics also contribute as retirees seek income, taking our year-end target for the 10-year Treasury to 2.4%.

"Run, Forrest, run!" could easily become "Run, equities, run!" if investors shed the "braces" of negative sentiment. Record earnings could propel prices higher, hence our S&P 500 year-end target of 2946. Trade dispute escalations could reduce this estimate by ~4%. Internationally, if trade progress is made, emerging markets could finally "re-emerge."

Unlike Forrest and Jenny, oil prices and the U.S. dollar are not like **"peas and carrots"**; rather, they're typically negatively correlated. Given projected rate cuts, we forecast a weaker dollar ($1.15 versus the euro before year-end). Increased demand for sweet oil due to the new 2020 sulfur regulations should support oil prices with our WTI crude forecast at $70/barrel before year-end.

Global Sovereign Yields Fall Sharply

Sovereign bond yields continue to decline as the proportion of negative-yielding bonds rose to a record high.



Just as Forrest persevered through hard work and good fortune, investors must do the same. Being in the right place at the right time made Forrest part of numerous iconic events in the 20th century, and that's the objective of our investment strategy views: position your portfolio to maximize your risk/return profile. As the markets become more challenging, we encourage clients to stay the course and regularly review their portfolios with their advisors. ■

Lawrence V. Adam III, CFA®, CIMA®, CFP® is Chief Investment Officer of the Private Client Group at Raymond James.

Learn more at www.raymondjames.com/commentary-and-insights.

RAYMOND JAMES

Opportunity Is Knocking in the New World of Advice

By Aaron Funk
RBC CORRESPONDENT AND ADVISOR SERVICES

Competitive and regulatory forces, combined with shifts in clients' attitudes and expectations, have radically altered the business landscape for financial advisors. To navigate this new terrain, you need to be aware of the challenges—and the opportunities.

Three challenges driving change

1. Competition – Today, the discount and online brokerages—including robo-advisors—have assets under management comparable to those of the big wirehouses. Many of these firms have succeeded by combining simplicity and low cost, with periodic human interactions.

2. More regulation and oversight – While the Department of Labor's Fiduciary Rule was vacated by the courts, the Securities and Exchange Commission finalized Regulation Best Interest in June 2019. It imposes a materially heightened standard of conduct for broker-dealers and goes beyond retirement accounts to govern how both RIAs and brokers interact with clients in all dealings that involve securities.

3. Client expectations – Clients are not only demanding greater transparency regarding standard of care and advisor compensation, they are also becoming more aware of fee-based products and their benefits. They have been conditioned to ask their advisors if they are a "fiduciary," which in a fee-based account the advisor can answer affirmatively.

Three ways to seize opportunities

1) Expand your target market – For many in our industry, the most profitable clients have been the wealthiest ones. But it is a mistake to ignore the "mass-affluent" market. This group, whose members maintain accounts between $100,000 and $1 million, have approximately $11.1 trillion in investable assets, which represents 35 percent of the entire financial services marketplace. As advisors have pursued the high-end clients, the mass-affluent market may well be under-served—which means they are in need of services.

2) Focus on planning, not products – To thrive in the coming years, you may need to consider your clients' "big picture" more than ever before. When you engage in wealth planning with a client, it deepens the relationship, increases overall client satisfaction, improves client retention and increases share of wallet. Think about redefining yourself as an advice provider who can help clients prioritize their goals and choose the right solutions to meet those goals.

3) Take advantage of technology – Our industry has made some big strides in technology the past few years, making it easier than ever for you to engage clients more deeply, offer a wider array of solutions, and provide advice and guidance through goals-based planning approach. Ultimately, technology can play a huge role in helping you provide much-needed advice to your clients.

A confluence of forces—competitive, regulatory, attitudinal and technological—is moving advisors from perceived "low-value" activities, such as investment selection, to "high-value" endeavors, particularly personalized, planning-oriented advice. Client relationships are changing as well, from transactional to holistic wealth management featuring fee-based accounts, where appropriate. Embracing these changes will help you be well prepared for success. ■

Aaron Funk is Director of Wealth Strategies for RBC Correspondent and Advisor Services.

RBC Correspondent Services provides comprehensive clearing, custody and execution services to independent broker-dealers. RBC Advisor Services provides comprehensive custody and brokerage services to registered investment advisors. They also deliver technology, expertise and wealth management solutions.

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High Net Worth Investors Are Smitten with Commercial Real Estate

By Adam Hooper
REALCROWD

Once upon a time, commercial real estate was considered an alternative investment category. High net worth investors may have dabbled in the market, but it was not a primary asset class for them.

This has changed as the sector has earned a solid reputation as a comparatively safe means to attain portfolio diversification, growth and near-term cash flow.

According to RealCrowd's recent survey of high net worth investors, 53 percent of respondents indicated that they plan to make two-to-four direct real estate investments in 2019, a 20 percent rise from the number of investments they made in the asset class during the prior year. In addition, 47 percent of respondents indicated a desire to allocate more than 25 percent of their investment portfolio to commercial real estate, particularly in the areas of multifamily, industrial, funds, office, hospitality, and retail.

These responses indicate substantially increased interest in the real estate asset class from high net worth investors. It highlights real estate's strength, and it also demonstrates a high comfort level with investments, even considering the current prolonged period of economic expansion.

Many high net worth investors are also adopting a long-term hold strategy for their real estate investments. Our survey revealed that 46 percent of respondents are looking for real estate investments with hold periods of five-to-seven years, and 15 percent of respondents are looking for investments with hold periods of 10 years or more. This strategy dovetails with Opportunity Zone legislation, which provides sizable tax benefits on capital gains for holding a real estate asset in an opportunity zone for seven years or longer.

Also interesting is how high net worth investors are embracing different methods of investing in real estate. Nearly 80 percent of respondents said they invest in real estate assets online through direct investing; 43 percent said they purchase their own real estate assets; and 36 percent indicated that they purchase their real estate assets offline with partners. While our status as an online real estate platform does make us somewhat biased, we are beginning to see more investors utilizing digital methods of investing in the market, which shows that they are becoming more comfortable with this format.

Another intriguing finding involves how the stock market impacts respondents' real estate investments. While 72 percent of investors surveyed say the stock market has no impact on their real estate investments, they also indicated that they are three times more likely to invest in real estate when the stock market feels at the top versus at the bottom.

Therefore, even though investors aren't depending on the stock market to guide specific real estate transactions, they are using it to gauge the overall health of the economy, which then informs their real estate investment decisions.

As the real estate market matures, it continues to capture a larger slice of the high net worth investment pie. Investors are becoming savvier about this asset class, recognizing it as a category whose risk-adjusted returns often outperform stocks and bonds and a key tool in their wealth-management strategy. ■

Adam Hooper is Co-Founder and CEO of ReAllocate, an innovative technology platform serving independent investment advisors. The platform helps RIAs provide access to professionally managed direct real estate investments via its risk-based Allocation Intelligence (AI) platform. ReAllocate adds value to the services RIAs provide their clients and strives to help advisors strengthen their businesses through creating operational efficiencies and enhancing client relationships. ReAllocate is a RealCrowd company.

Learn more at www.reallocate.com.

REALCROWD

$30 Trillion Wealth Transfer Hinges on Brokerages' Digital Experience

By Scott Freeland
SCIVANTAGE

Is your mobile wealth management offering among the best in the industry? If not, it will likely cost you.

According to CNBC:

"Over the next several decades, the biggest and wealthiest generation in U.S. history will transfer roughly $30 trillion in assets to their Gen X and millennial children, and if studies are accurate, ***most of those children will promptly fire their parents' advisors***[1]*."*

If that doesn't get your attention, nothing will.

Per Marketwatch, millennials don't trust financial institutions to give them advice. A Facebook study finds only 8% trust financial institutions, 45% would switch financial firms for any better option, and millennials are 2 1/2 times likelier than Gen Xers or Baby Boomers to use robo-advisors to manage their wealth[2].

Why Robos? Most likely because even though Robo's offer basically the same managed portfolios available through actual advisors, millennials are more comfortable with apps than working with a real person. The majority of millennials (61.2%) say they most prefer to do their banking with mobile apps, and 69.1% said they'd done just that during the previous week.

What Do They Want?

Actually, they want many of the same things that other audiences desire as well. At a high level, these include:

- **Integrated Access:** All financial information from diverse accounts consolidated into a single experience
- **Anytime, Anywhere Access:** Financial information easily viewable via any device, at any time
- **Easy to Use Interface:** An attractive and superior UI
- Transparency: Real answers to questions about investment performance and costs, at their fingertips, in real-time
- **Self Service Tools:** Robust capabilities for self-managing financial accounts and relationships
- **Advice Delivery:** Including both automated and digital relationships with their real-life advisors

Many digital solutions have offered some of these capabilities but not all. Users might have been able to view basic financial information, but not utilize data from across all accounts for financial planning or risk management. Such capability historically has been limited to handful of the largest firms.

They Also Want Personalized Experiences

Having all the functionality isn't quite enough. Millennials and other audiences desire a highly personalized experience. The model isn't as simple as taking functionality done online and making it available on a mobile device. What consumers—and especially millennials—want is an experience tailored to their needs and preferences.

Consider the experience delivered by popular apps from Uber and Venmo to Netflix and Instagram. These apps deliver an experience that makes the user feel special, as if the companies were anticipating their needs, sharing information and content with them first and proactively making suggestions that can improve their experience and make life more enjoyable.

How Does that Translate into a Wealth Management App? With features such as:

- Relationship Dashboard: A comprehensive view across all financial accounts making a client's investment relationship with the financial institution easier to navigate
- Interactive Features: Intuitive, touchable charts and navigation commands allowing users to easily view, interpret and take immediate action on information
- Markets & News Accessibility: Direct access to market performance and news

Trillions of dollars are poised to pass into the hands of the millennial generation who have very high expectations for service-oriented technology. Financial firms who fail to prepare to meet the digital expectations of this new generation will be left behind. ■

Scott Freeland is EVP Head of Product Digital Wealth at Scivantage. *Scott brings 20+ years of experience in the wealth management/digital banking marketplace.*

1. CNBC, June 16, 2016
2. Marketwatch, March 14, 2018

Learn more at scivantage.com/wealthsquope.

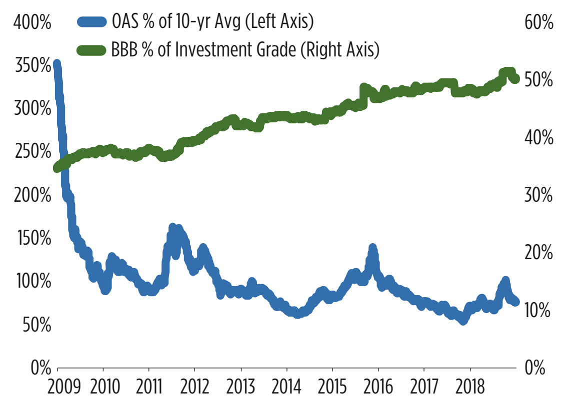
End of the Credit Cycle? Beware the Benchmark

By Dan Henken, CFA®
SECURIAN ASSET MANAGEMENT, INC.

Major credit indices are fundamentally flawed, we believe this to be true. The basic premise upon which they are constructed is inadequate. The concept that a higher debt load results in a larger index weighting is offensive to even the most novice credit investor. Unlike the major equity indices, which are largely a reflection of the market's valuation of companies expected earnings capacity, fixed income benchmarks reward aggregate debt. Given the massive increase in debt issuance over the past ten years, this should be very concerning to credit market participants. In fact, the Bloomberg Barclays US Aggregate Bond Index raised the minimum debt criteria in 2017 from $250M to $300M as increased incentive to profligate borrowing.

Furthermore, the idea that fixed income indices are "passive" is largely a fairytale. Certainly, the financial capacity of any company to service its nominal debt load must be considered in determining its credit worthiness. Rating agencies make active decisions that impact which issuers will be included within a particular index and which ones will be left out. The credit rating decision is very much arbitrary and very much active. For example, giving one company years to reduce debt after a large acquisition while penalizing another immediately. They may see one industry as more defensive than another or give credit to companies that have larger scale while penalizing those that are smaller. Given the performance of the rating agencies, particularly in times of turmoil, there should be little comfort in credit ratings.

The critical flaws of the benchmark framework have been exacerbated by increased dependence upon them since the last recession. Behemoth asset managers in fixed income markets have increased the risk to investors. Their sheer size, a limited market liquidity environment and the comparative ease of modeling larger benchmark securities has resulted in a crowding effect in large capital structures. The increased adoption of passive investment vehicles to gain quick exposure to fixed income markets has also increased the risk to investors. This dynamic is readily observable when looking at US investment grade spreads. The average option-adjusted spread stands at approximately 75% of the 10-year average for Bloomberg Barclays US Aggregate Corporate Index despite the fact that the credit quality of the index deteriorated dramatically over that time. The BBB weight within the index has risen by nearly 15% over that time to over half of the investment grade universe. This should be unsettling for credit market participants, as the market has begun to flash numerous warning signals of a potential recession.



Source: Bloomberg and Securian Asset Management, Inc.

The current credit cycle is much closer to its end than its beginning. It is showing signs of either buckling under its own weight or being crippled by numerous tail risks that investors have ignored. Fortunately, credit markets are resilient, dynamic and often provide opportunity to investors who do not run with the herd. The key to managing and thriving the next slowdown is to rely on the fundamentals of credit investing. Recognizing that credit rating or benchmark weight has limited correlation to actual risk in difficult markets. Furthermore, finding skilled managers, who are nimble in size, with attractive risk-adjusted performance will be crucial. It will likely prove challenging to avoid the most overheated parts of the credit market with a large asset base and poor secondary market liquidity. ■

Dan Henken, CFA® is Vice President and Portfolio Manager at Securian Asset Management based in St. Paul, Minnesota.

Learn more at www.securianam.com.

securian
ASSET MANAGEMENT

Three Keys to Adapting to the New Era of Wealth Management

By Janine Wertheim
SECURITIES AMERICA

If you hope to have a thriving financial practice in 10 years, it's time to prepare for a future that will look much different than today.

Changes in regulations, technology and demographics will disrupt almost every aspect of your business. To grow your practice, you will need to develop a plan that addresses three key issues.

Attracting next-generation advisors

The widening generation gap in the industry will continue to heat up an already competitive recruiting market.

Young professionals are seeking purpose. It's up to you to show them, as a financial advisor, they will make a positive impact on many people's lives.

As demand for young advisors grows, partner with a broker-dealer or other professionals who offer resources that can broaden your appeal to associate advisors. Many broker-dealers, like Securities America, are developing educational opportunities, mentoring programs, internships and advisory boards to help advisors attract next-generation professionals.

Differentiating yourself

We may be in the middle of the largest generational wealth transfer in history, but you can't sit back and wait for next-generation investors to come to you.

Attracting young clients may require you to approach your service in a different way, such as incorporating value-added services or considering a subscription or retainer fee rather than leveraging asset-based fees.

Additionally, clients are living and staying active longer. It will be critical to ensure you are providing services that address their unique needs, including assistance with housing, health, transportation and programs to help them live a meaningful life in their later years. If you can't provide these resources, consider aligning with experts who can curate services that help you architect a well-lived life for your clients.

Keeping up with technology

Technology moves fast and doesn't wait for anyone. If you don't keep up with it, someone else will. It's critical for advisors to keep pace.

Technology will also make it easier for clients and advisors to collaborate with other industries on one platform to better manage their complete financial picture. You can maximize your technology's potential by seeking out intuitive financial planning tools and enrolling in training to ensure you are leveraging the tools effectively.

To ensure your digital footprint—made up of your online and social media history—positively impacts your business, make sure your website, blogs and social media posts accurately reflect your brand.

Advancements in technology and changes in regulations will revolutionize our industry. To keep up, your role will also need to change. You will need to go beyond conducting transactions and building portfolios, and build stronger, deeper, more personal relationships with the people you serve. To hone your skills in this area, consider earning your Behavioral Financial AdvisorTM certification.

Change is inevitable, but with some forward thinking and thoughtful planning, you can position yourself to capitalize on this new era of financial planning. ■

Janine Wertheim is President of Securities America Advisors; Chief Marketing Officer and Senior Vice President of Securities America.

Are You Talking With Your Clients or Talking at Them?

By Bill Finnegan
SEISMIC

The role of the wealth manager is changing. Model portfolios, portfolio optimization tools, and, increasingly, the use of Artificial Intelligence (A.I.)-powered investment management approaches mean that the wealth-manager-as-portfolio-manager model is losing its role as a major driver of value. Going forward, other services will take precedence, primarily relationship building, values-based planning approaches, while providing the coaching and steady hand required to make sure clients stay on plan throughout their lives.

As the role changes, so too does the way in which wealth managers are communicating with their clients, driven by technology and a generation of "mobile-first" clients and prospects. Personalization, multi-platform, always-on communications, and higher levels of informed engagement are now required to establish, build, and maintain client relationships.

Personal contact is still important, however. A recent Global Wealth study from the consulting firm EY supports this; they found that while mobile was increasingly the preferred form of communication (41%), 24% of clients preferred face to face, and 16% favored phone calls. Dynamic content, mobile access, and high levels of customization are in fact becoming viewed as the standard, as clients expect the same type of customer experience from their advisor as they are now used to receiving in another industry that has seen its old ways pushed aside by technology: retail.

For the wealth management firm that is giving serious thought to the ways they are engaging with their current clients, and how they plan to engage with new clients, there is a new set of technologies known collectively as "sales enablement" which provide a way to deliver a customized client experience end-to-end. Content is assembled in a centralized repository with rules defining who has the ability to access what. When new versions are introduced, they are updated automatically and verified for compliance.

Wealth professionals can draw on this repository to create customized presentations which can be delivered across multiple platforms and in multiple formats in near real-time. Analytics on content sent via the platform allow advisors to see what is being read and what isn't, to refine levels of customization in future interactions, and to remove materials that are not being used or are not resonating. Equally important, presentations, quarterly reports, and other materials can be delivered faster and more efficiently, resulting in a better experience for the client, and significant savings in both time and expense for the wealth manager.

Mobile will play an increasingly important role as younger clients age, accumulate wealth, and become a bigger part of an advisor's practice. As the EY study put it, "Digital channels are evolving faster than wealth managers and their clients anticipated three years ago. In 2016, only 20% of clients projected that they would prefer to use mobile apps for wealth management activities by 2019; whereas this year's research shows 41% of respondents preferring mobile apps as their primary channel for wealth management." Mobile demand matured twice as fast as anticipated.

There was a time when advisors could get away with less than optimal technology since they controlled the client relationships. Clearly, that is changing. Clients, particularly millennials, can be fickle and do not mind shopping around. The numbers are a little alarming: 33% of clients have switched providers in the past three years, and another third plan to do so in the next three years, again according to the EY study.

Clients can move for any number of reasons, but substandard advisor technology should not be one of them. The bar is rising fast, driven by the increasing ease of use and convenience that technology can bring. For advisors, sales enablement platforms are a powerful tool for staying ahead of that pace of change and for ensuring strong, long-term relationships with clients. ■

Bill Finnegan is the Managing Director of Financial Services Marketing at Seismic and was previously the Chief Marketing Officer at AMG Funds.

Learn more at seismic.com.

SEISMIC

Beyond the Horizon

By Kristi Delongchamp
SPS FAMILY

As the number of financial advisors continues to decrease year after year due to planned retirements, unforeseen events, or simply the frustration of increased regulation, firms must think creatively to breathe new life and excitement into the financial services profession. How can our industry rebuild and support a new generation of advisors? Can we create excitement?

Excitement is generated by opportunity…and our industry has an opportunity to renew itself. What makes a career as a financial advisor exciting? Established firms must answer this question and effectively communicate it. More broadly, we should plan to transform the general outlook on the financial services industry into one of positivity.

Where can we start? Education. As Francis Bacon said, “Knowledge is Power.” Our industry needs to start early, discussing and promoting financial wellness as a personal lifestyle as well as an exciting and fulfilling career path. We must start talking with children about finances as soon as we can, through daily conversations in our homes as well as through school. We then need to expand upon this financial awareness concept in the high school setting. Participate in career days. Offer to provide seminars. Take the initiative to talk with students about personal finances and the effects of debt while highlighting the personal satisfaction that comes from helping others with their financial futures. As we educate the new generation on the impact of buying, selling, saving, and giving, we can also describe how people dedicate their careers to assisting people with their finances and how rewarding and exciting this profession can be.

That brings us to today. What can we do as financial firms to show our commitment to individuals who show interest in the advisory profession and help break down the barriers of entry into our industry? Firms should dedicate individuals to tour local colleges and talent agencies to get in front of prospective individuals and tell our story. Discuss the initial steps of becoming a financial advisor. Emphasize the satisfaction that advisors feel when helping clients plan for their financial future. Outline the fundamental principles the financial services industry stands for.

As individuals become more engaged and committed, discuss financial assistance firms may be able to provide as many of these individuals are already pressured with current debt from school loans as well as daily living expenses. Firms

can allocate financial resources to help qualified candidates offset some of the financial burden. By doing so, motivated individuals gain the opportunity to pursue their future career during a time they might not otherwise have the excess funds necessary for the licensing process.

The final and most important early opportunity firms should offer are mentorships. While it is important to be book-smart, true hands-on experience brings to light situations that can’t always be taught in the classroom setting or via books. Firms can offer that type of exposure through mentoring opportunities, whether by working in back office or branch office settings.

As an industry, we must become more involved in introducing the next generation of financial advisors to opportunities available. By providing education, financial resources, mentorships, and potential office placement, firms can take a proactive approach to offering opportunities that benefit not only the new generation, but also the generation looking for successors. To see “beyond the horizon,” our industry must think creatively and take action! ■

Kristi Delongchamp is a Firm Development Supervisor at SPS Family.

Learn more at www.sps-family.com.

Trump Outmaneuvers Fed Via Trade Policy

By James F. Keegan and Perry Troisi
SEIX INVESTMENT ADVISORS

For all the Federal Reserve's insistence that it acts independently of the executive branch, recent history would suggest that President Trump will pull enough geopolitical strings to make an already dovish Fed more amenable to lowering rates with just enough lead time to boost the economy heading into the 2020 Presidential election cycle.

The Fed's pivot toward patience was one thing following a near 20% decline in the S&P500 in 4Q19. More recently, after a steady stream of critical tweets and pronouncements from the White House1, Fed Chair Jay Powell signaled a willingness to lower rates if escalating trade tensions with China and Mexico slow the economy further.

Against that backdrop, consider the structural forces that have remained in place since the global financial crisis. Global debt went from $173 trillion at the end of 2008 to $243 trillion at the end of 2018 (according to the Institute of International Finance). An aging global population will pose significant implications for the labor and financial markets, and the demand for goods and services. The global-manufacturing complex is faced with huge excess capacity. And longer term productivity trends have slowed since the 1990s.

All of which points toward a continuing economic slowdown and elevated global recession risk within the next six to 12 months. If that scenario plays out, the 10-year Treasury could drop below 1% and the 30-year could drop below 2%. And a not insignificant portion of the BBB corporate bond market could lose its investment grade status in the next recession, putting pressure on the high yield market as it absorbs this fallen angel supply.

The ongoing conflict with China most likely will intensify and represents much more than a trade war. This has all the hallmarks of a looming economic cold war that could last years as China transitions from multinational customer to competitor, as well as its ambitions to challenge the superpower status of the U.S.

For investment grade investors, U.S. Treasuries will remain attractive, but a defensive posture as it relates to security selection within corporate sectors will be critical. ■

James F. Keegan, Chief Investment Officer and Chairman of Seix Investment Advisors LLC, has oversight responsibilities for the investment teams and specific portfolio management responsibilities within the investment grade team.

Perry Troisi, Managing Director and Senior Portfolio Manager at Seix Investment Advisors LLC, focuses on the government-related and securitized asset classes.

1 Christopher Condon, "Here's a Timeline of All Trump's Key Quotes on Powell and the Fed," Bloomberg, May 2, 2019.

Financial Advisers: Your Website Is NOT a Landing Page

By Robert Sofia
SNAPPY KRAKEN

Here is a vital concept for financial advisers to understand if they want results from their digital marketing: A website is not the same as a landing page!

I've spoken to many advisers over the years who have attempted to generate leads by driving paid online ads straight to their primary website.

Big mistake.

See, most primary websites just aren't optimized this way. Most of the time, visitors get to your website and they are presented with all of these links, rotators, menus, and images.

Visitors can learn more about who you are, what you do, what you offer or how to contact you.

There are lots of things to read and explore. Which is great—for a website.

Remember, your website is designed for choice and exploration. It's meant to engage and empower visitors to learn more about you.

And while you may still have elements on your website meant to capture lead information, you're going to want something specifically designed with this in mind—especially when you're paying to run online ads.

This is where landing pages come in.

The concept behind a landing page is that it is a focused page, with a specific offer and a single call to action. It's made with the intent of offering up something of value in exchange for a small amount of information from your visitor.

This is why it's important to remove any distracting navigation links, leaving only one choice for your visitor to make. This helps create better conversion results because it sharpens your visitors' focus and prompts them to follow through on a single call to action (example: Download my eBook).

Since landing pages have a singular, focused message, there is more alignment between them and the ads that get your visitors to click through. When someone clicks on an ad, they have an expectation about what they're going to see next.

If you take them to a destination, like your primary website, with too many choices and competing messages, you've lost them.

Landing pages can be about virtually any topic which allows for marketing to various audiences and niches simultaneously. You can tackle different topics, and even test out offers to see what makes a bigger impact—all without having to add clutter to your website. This means more leads from more sources.

In fact, one source reports that "Businesses with over 40 landing pages generated a whopping 12 times more leads than those with 1-5 landing pages."[1]

While the prospect of publishing multiple landing pages can sound daunting, you can start slow and build up from there. Is it worth it if it earns you more business? You bet.

Remember: for your landing page to work, you need to keep from adding distractions, leaving your visitors with one choice, one call to action. Because that's how a landing page does ONE thing and does it really well. It converts. ■

Robert Sofia is CEO of Snappy Kraken, an automated digital marketing platform for financial advisers.

1. www.wordstream.com/blog/ws/2017/08/02/conversion-rate-statistics

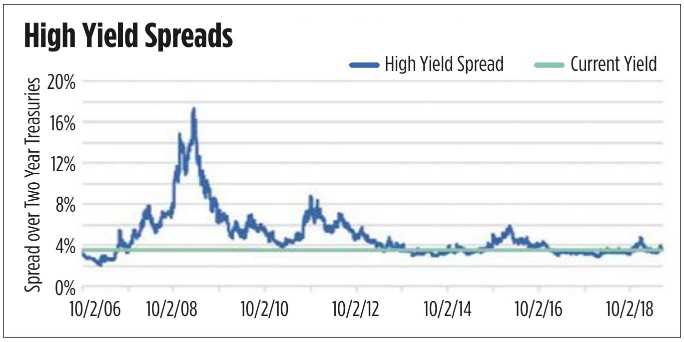
SNAPPY KRAKEN

Learn more at snappykraken.com.

Zero Bound

By Eric Metz, CFA
SPIDERROCK ADVISORS

Interest Rates in the U.S. found a recent high on Jan 18th, with the 10-year TSY reaching 2.79%*. Since then, rates have slid dramatically, with most of the yield curve now rewarding investors with an income stream that starts with a 1-handle. At the same time, credit risk is now being less compensated than at any point in history, perhaps not because the risks are the lowest they've ever been, but because investors feel they have nowhere else to go.



Identifying alternatives that can generate income has been difficult. Many Advisors have resorted to illiquid assets or return-of-principal strategies to bridge their clients' income gap. These approaches do promise current income, but not with the terms or the risks the typical income investor has grown accustomed.

Largely unnoticed, and increasingly opportunistic as a source of portfolio yield is a systematic approach to equity index put writing, or alternatively "volatility risk premium". Advisors know there is a significant equity beta associated with their high yield bond funds (remember 2008?) but given the higher yields available from a beta-equivalent put writing strategy, Advisors may want to consider doing some homework in this area. (Some suggested reading: Cboe Link).

By selling a targeted amount of out-of-the-money index put options (think S&P 500) as an overlay, Advisors can seamlessly dial-up the income in fixed-income portfolios with an associated increase in equity risk akin to high yield bonds. What this approach avoids, however, are several of the drawbacks to junk bonds, namely their poor liquidity, significant trading slippage and unfavorable tax treatment.

With equities at near-record levels, index puts have become very expensive relative to index calls, and this relationship makes a put selling strategy more attractive than normal. The fact that index put options generate tax-favored income under Rule 1256 of the Internal Revenue Code (60% LTCG / 40% STCG regardless of holding period) makes this approach a potential long-term strategic replacement for allocations to credit.

Making the transition while yield spreads are near all-time tights may well be "selling the highs", but because of how many of these high yield funds and ETFs work, few investors are sitting on embedded capital gains—making a strategic switch even easier without the tax friction.

The rest of 2019 appears to be set up for a replay of the ultra-low interest rate environment of the years that followed the GFC. Investors who need to generate income from their portfolios to meet their spending needs will be challenged and seeking alternatives in the options space may be warranted. ■

Eric Metz, CFA is the Chief Investment Officer and President of SpiderRock Advisors. He oversees all investment strategies and portfolio management activities at the firm. Prior to joining SRA, Eric was the Derivatives Strategist and Portfolio Manager at RiverNorth Capital Management, managing both mutual fund and hedge fund assets (and was a client of SpiderRock). He began his career with the Chicago Trading Company on the floors of the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE). After the trading floors, Eric was a senior trader and partner at Ronin Capital and Bengal Capital, both proprietary trading firms specializing in volatility arbitrage.

Learn more at www.spiderrockadvisors.com.

SPIDERROCK
ADVISORS

Five Trends Driving Technology Decisions

By Daniel Eriksson and Shana Bruner
SS&C ADVENT

In the face of growing competition, market complexity and regulatory pressure, asset and wealth management firms increasingly look to technology to deliver a strategic advantage. Based on insightful conversations with industry experts and clients alike, these are the five key trends influencing near-term technology decisions.

1. Clients First: Firms have always sought to differentiate themselves on the basis of client experience (even before that term became ubiquitous), however the nature of the client relationship is changing rapidly. Investors today expect greater transparency, timely account data, and an extension of their experience to digital channels. This puts a premium on customizable client communication and reporting, and makes a responsive mobile portal a virtual necessity.

2. Technological Disruption: Firms are scrambling to determine best use-cases for integrating intelligent technologies into their operations, even as solutions built around AI, distributed ledger (blockchain), machine learning and robotic process automation commandeer repetitive tasks. Importantly, firms view these technologies not as replacing humans, but as co-bots that augment and amplify a human's analytical skills; even smart machines need oversight and must operate within compliance regimes.

3. Got Talent? In a full-employment economy, firms face fierce competition for the best and the brightest. As operational priorities adjust, job requirements are shifting from task performance to process management and analysis. The "digital natives" who are entering the labor force expect employers to be capitalizing on the IoT and embracing purposeful and collaborative work. To grow the talent pool, community outreach and workforce diversity are not just social responsibilities, but business necessities.

4. Regulatory Expansion: Regulations continue to dictate operational priorities and investments. Firms must prepare for increased scrutiny on cybersecurity, protection of personally identifiable information (PII), and aggressive state-enacted privacy laws. Recently, the SEC finalized Regulation Best Interest or "Reg BI," putting further fiduciary requirements on broker-dealers. And, rules requiring Consolidated Audit Trail (CAT) reporting to SROs will extend to all industry members by 2020. Firms need to know their technology providers have their backs on these issues.

5. Back to Front: Gone are the days of the back-office as the record-keeping repository. This evolution of our industry is forcing the back office to move at a much faster pace, even intraday. This enables the front office to make decisions on the best available data to maximize investment potential and blurs the distinction between front- and back-office activities. Firms are more appreciative of the overwhelming complexity of operations—the "first line of defense" in today's regulatory environment and a marketplace that rewards speed, agility, and precision.

Firms that defer investments to address these complex challenges will find themselves in "technological debt," constantly trying to dig out and catch-up. At SS&C Advent, we're collaborating with the brightest minds in the marketplace to ensure our investments are focused on longevity, and designing solutions that can evolve in a dynamic industry. ■

SS&C | ADVENT®

Daniel Eriksson, Vice President, Solutions Management and Shana Bruner, Senior Director, Solutions Marketing are key members of the team responsible for SS&C Advent's asset and wealth management solutions.

Learn more at www.advent.com/advent-portfolio-exchange.

Don’t Let Your CRM Become a Data Black Hole

By Dave Ireland
SS&C SALENTICA

In April of this year, astronomers released the first ever image of a black hole, discovered some 55 million light years away from Earth. Black holes are areas of densely-packed matter, whose gravity is so strong that everything around it is pulled in and never released.

Because most of my day is spent in the world of CRM software, my mind wandered towards an analogous relationship between a black hole and many CRM deployments.

The CRM system is at the core of almost every wealth management business today. The well-documented benefits of using a CRM to capture client and COI data, to record activities and interactions, and to leverage business rules, workflows, and automation to run your business are fundamental to most practices.

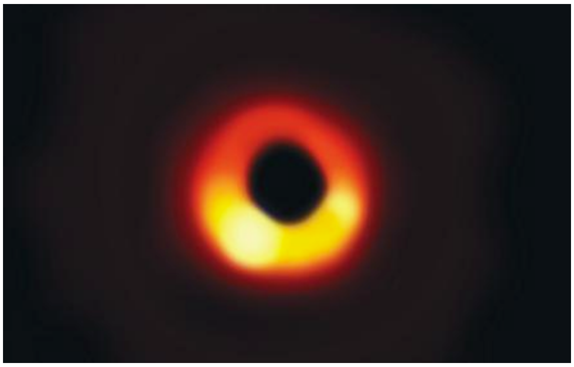
Your data is the second-most valuable thing your firm possesses, and so the mantra of most firms is to ensure that all data is recorded in CRM. This is as it should be; firms absolutely need a central repository for non-financial data, and CRM is the best place for it. And as tremendous as a CRM is at collecting, storing, and reporting on all of this data, too often that is where the story ends.

The risk is that your CRM becomes a black hole for data – that data goes in, but never comes out. The value of having all of that rich data is diminished if you are unable to leverage it to feed other core systems or processes.

In order to unlock the power of your CRM data, you need to set it free—or at least some of it. In isolation the data is useful, but when you begin to share it with other applications in your tech sphere, you start to realize the benefits of integrated systems.

Many of the peripheral systems that wealth managers use every day can benefit from automatic or on-demand access to pockets of your CRM data. Financial Planning, Custodial Platforms, Portfolio Management, Risk Management, Digital Marketing, Client Portal, e-Forms, Analytics, and AI—all of these applications need your CRM data like oxygen. Rather than using your most valuable assets, your people, to double- or triple-enter data into multiple systems, let the machines do it.

Connecting, or integrating, these systems can seem daunting. There are many things to evaluate when looking at integration—even the word itself means many things to many people. When assessing an integration between two systems, you should consider:



Security: Ensure that your data is encrypted as it moves from source to target, and that you understand how/where your data is stored.

Flexibility: Can you modify or configure it yourself, or do you need the vendor or a consultant to help?

Functionality: Is the integration moving your firm forward? Does it justify the expense of purchasing and maintaining it?

Auditing: Is there a history that you (and compliance) can access?

The good news is that there are providers with pre-built, industry-tested connectors for many of your critical applications. As you plan your technology strategy for the remainder of this year and into next, think about which of your processes would benefit from data sharing. Seek out partners with a history of successfully connecting these applications.

Don’t just store your data; put it to work for you. ■

Dave Ireland is Co-General Manager at SS&C Salentica and leads a talented group of Product and Technology professionals.

Learn more at www.salentica.com.

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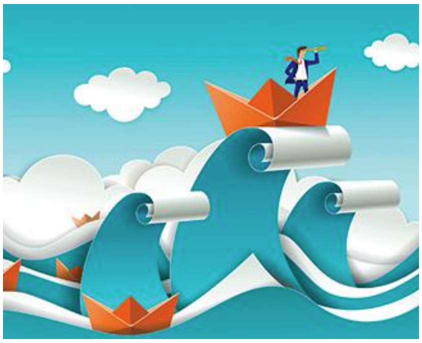
Preparing for Rough Seas Ahead

When the market is sailing into a potential downturn, fundamental changes should be made to avoid clients jumping ship

By Eric Rocks
SS&C TECHNOLOGIES



Despite a relatively strong market in early 2019, a weakening global economy, protracted trade wars, and other dark clouds are threatening rough seas ahead. This is the optimal time to fortify the ship by improving operating efficiencies, examining fee structures, and upgrading technology to free up resources to strengthen client relationships. Wealth management firms that simply batten down the hatches by trimming operating costs may not to weather the storm. Instead, they could see a number of clients abandon ship and get plucked from the water by competitors. Here's what you can do to minimize client attrition and build a stronger operating model for future growth.

Concentrate Internal Resources on Client-Facing Activities

If a market downturn is looming, it's a good time to analyze where your firm's advisors are spending their time. Too many RIAs, particularly in small-to-midsized firms, are bogged down with operational tasks such as looking for market value discrepancies, reconciliations, KYC reviews or even AML screening. Many of these functions can be outsourced to firms that specialize in these areas, freeing up more time to focus on client relationships.

Re-examine Your Fee Structures

Even in bull markets, the growing trend toward passive investment strategies has put downward pressure on management fees. In a bear market, lowering fees that are already shrinking from diminishing portfolio values seems counterintuitive. However, when markets are dropping clients go shopping. Make sure your fees are competitive across the board from your passive to most actively managed accounts. Even if one of your services offers a premium value add, make sure the premium fee structure aligns with your competitors. You may take a hit in the short term, but when the market recovers, you'll be happy to see growing revenues as portfolios begin grow again.

Ensure Client Investment Policies are Aligned to Market Realities

Now is a good time to make sure annual client meetings are on your calendar to discuss the changing market and how that might impact your clients' current investment strategies. By highlighting the potential market changes since they last set their investment strategies, you may find that your clients have not reconsidered their directives in some time and would welcome a proactive review.

Focus on Your Digital Presence

Today's investors are extremely digital savvy. If you have less than cutting edge online technology, now is a great time to upgrade to lock in your existing client-base as well as the succeeding generation. Consider ways to build out new communication channels with more frequent updates tailored to specific clients. During bear markets, clients want your appraisal of what is happening and what you're doing to help them achieve the best outcomes. This requires continual, personalized communications and customized reporting that can be created and distributed quickly and efficiently. Think about on-line chat sessions, that clients can engage in on their cell phones. Focus communications on what you think will happen in the future rather than overanalyzing what already happened in the past.

Above all, remember that a good client relationship will outlive bad market performance, but a bad relationship in a bad market is a quick road to the end of the relationship. ■

Eric Rocks is Vice President & Managing Director of SS&C Technologies, Canada.

Learn more at www.ssctech.com.

Halftime Analysis of the U.S. Energy Sector

By Rob Thummel
TORTOISE ADVISORS

As we enter the halfway point of 2019, we comment on market performance, commodity prices, fundamentals, surprises and our energy outlook for the remainder of the year.

Trade Talks Weigh on Market Performance

The stock prices of publicly-traded companies in the U.S. energy sector had a strong start to begin the year. Through the first quarter of 2019, the U.S. energy sector as represented by the S&P Energy Select Sector® Index rose by 16% outperforming the S&P 500 by nearly 3%. Energy infrastructure as represented by the Tortoise MLP Index® performed even better delivering a first quarter return of 18%. The second quarter has introduced substantial uncertainties as trade talks between the world's two largest economies have stalled resulting in the U.S. energy sector giving back some of the first quarter gains. Year-to-date, as of June 30, 2019, the U.S. energy sector has risen by 13% while the Tortoise MLP Index® is up 19%.

Energy Sub-Sector Market Assessment

Let us look at individual sub-sector performance across the U.S. energy value chain including oil and gas producers, oil field services, energy infrastructure and refining and utilities.

Beginning with oil and gas producers, the Tortoise North American Oil and Gas Producers Indexes' has increased by 10% year-to-date. Oil producer stock prices have outperformed natural gas producers given the directional moves in the price of the respective commodities. A major change is occurring in the oil and gas sector as producers move away from production growth and toward free cash flow generation. Oil and gas producers are looking for every opportunity to accelerate free cash flow generation to attract investors outside of the energy sector to their stocks. Time will tell but this type of change is critical and we applaud this focus.

Switching to the oil field services sector, the sector as represented by the Philadelphia Stock Exchange Oil Service Sector Index has underperformed the broader energy index, rising less than 1% in 2019. This sector continues to be challenged by underutilized equipment that has resulted in declining revenues eroding margins and earnings. Given the decline in the oil and gas rig count and current commodity prices, we believe this sector will remain challenged.

Next up is the energy infrastructure sector. This sector has been a bright spot across the energy value chain as the Tortoise MLP Index has increased by 19%. The multi-year transformation process for this sector is nearly complete. The result: better balance sheets and simpler corporate structures. A strong backlog of growth projects underpins continued cash flow growth from the sector. As U.S. oil and gas production volumes increase, the need for essential infrastructure grows. We believe this coupled with an index yield of over 8% looks attractive especially during a period when the 10-year Treasury hovers around 2%.

Looking at the downstream portion of the energy value chain, the S&P Oil & Gas Refining & Marketing Index has increased by 4% in 2019. The uncertainty in global demand for refined products such as gasoline, diesel and jet fuel tied to a prolonged U.S. and China trade war resulted in sector returns lagging the broad energy index. In addition, concerns of rising prices for a type of crude oil typically sourced from Venezuelan and/or Canadian is causing concern over the impact this will have on U.S. refiner margins. Lastly, utilities as represented by the Dow Jones Utility Index have increased by 14% in 2019. A combination of rising uncertainty causing investors to become defensive and low interest rates have helped the utility sector maintain investor appeal.

Commodity Prices in a Tug of War

Oil prices followed a similar trajectory to the performance of U.S. energy stocks with…

Download the entire Halftime Analysis at: *tortoiseadvisors.com/energy-halftime-analysis.* ■

Rob Thummel is Senior Portfolio Manager at Tortoise Advisors.

Learn more at tortoiseadvisors.com.

Tortoise℠

The Uptrend in Equity Markets Has Ended, Economic Growth Has Not

By David Aferiat
TRADE IDEAS LLC

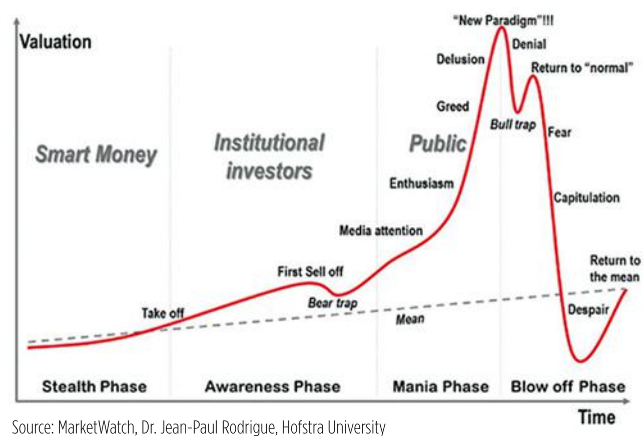
Navigating a complex market

Information asymmetry remains at the heart of successful alpha strategies in equity markets. Some people have the information they need for better decisions, other people miss the opportunity entirely.

Sophisticated innovations in Artificial Intelligence level the playing field for wealth and fund managers in an environment where global banks and colossal funds have historically leveraged capital and PhDs to gain an advantage. Opportunities now exist to make smaller players the beneficiaries of such capability.

With AI, massive structured and unstructured data sets in US equities are analyzed daily across infinite scenarios involving tens of millions of simulated trades. From there wealth managers are in a better position to use resulting analysis to decide on strategy, reduce risk, and capture alpha outcomes. Consequently, as you ask better questions about what's working in the markets, you get better answers.

Yet, understanding overall trends in the market and crafting a coherent investment response remains essential.



Source: MarketWatch, Dr. Jean-Paul Rodrigue, Hofstra University

Where the market is headed as of August 2019

Currently, analysts are focused on earning prospects which appear favorable. Stock prices, however, do not look favorable as we roll into the back half of 2019. The power of the default up trending market is over. American stock market indices produced a double top and recently broke their 200 day moving averages. 60% of the stocks in the NASDAQ composite are in downtrends. A narrow group of stocks made new highs when the indexes hit their highs. History shows that stocks peak 12–18 months before earnings peak when a major top occurs.

There has been a pop and drop market environment for some time now, demonstrating a need for better tools.

What tact should we take?

One example provides a hint on how to prepare for what may come: Bridgewater Associates, LLC. The asset allocator managed the top performing hedge fund in 2018.

Guess what? This manager is much more sophisticated than one would consider an asset allocator to be. Artificial Intelligence (AI) is a core contributor to Bridgewater's success.

Risk management is a necessary part of money management, but a bull market hides a great many sins. Advisors without a clear plan for risk control will not be successful in the years ahead. When the stock market has risen consistently it is difficult for a money manager to differentiate the firm's track record from other large diversified portfolios and indexes. Thus the constant pressure to reduce fees.

In a declining market a manager with excellent risk management techniques and a focused portfolio stands out. The reverse of this is that a manager without risk management in place may expect a great deal of litigation costs in the years ahead as well as an intense migration of funds out of the firm.

Bottom line: Managers must plan out market correction scenarios across multiple timeframes and identify the means in which they will determine when decisions, that will define their 1-year, 3-year, and 5-year performances, must be made. Machine learning AI making sense of the market movements will prove to be a key differentiator in who survives and who does not. ■

David Aferiat is Managing Principal of Trade Ideas LLC.

Learn more at www.trade-ideas.com.

trade ideas

How the Most Successful Advisors Spend Their Time: Digital Marketing Trend Update

By Samantha Russell
TWENTY OVER TEN

We've officially hit the mid-year mark for 2019, and now that Q1 and Q2 are in the rearview we were curious—are advisors year-end marketing goals coming to fruition?

To answer these questions, we conducted an industry-wide survey of 215 financial advisors—(166 were Twenty Over Ten clients and 49 were not) about their current digital marketing efforts and the impact of those efforts on lead generation and client acquisition.

The results revealed that if you're serious about growing your advisor business you have to be serious about being active online and upgrading your digital lead generation strategies to ones that actually work.

Key Findings

1. The large majority, 70% of advisors responded they receive only 0-1 leads per month through their websites. Only a small group, at 2% marked that they were contacted by 6-10 leads per month via their website.
2. Of those leads 26% of advisors responded that 1-2 of those leads converted into actual clients.
3. 39% said they are never posting blogs or other content to their websites, while another 31% noted they were making updates 1-2 times per month.

What's Working

So what is the common thread? We took a look at all 215 advisor websites and found some striking commonalities among those who get 6-10 or 11+ more clients per year. They:

- Included a prominent calendar link right on the homepage of their website, making booking easy.
- Had websites & blogs that were SEO-friendly.
- Were updating their websites at least 2x/month OR were part of a network that helped drive traffic (such as NAPFA, the Garrett Planning Network, XYPN, etc.)
- Wrote their website copy in problem > solution format for a specific audience.
- Were likely to incorporate video.
- Included an "as seen on" media section.

Digital Marketing Is Essential for Driving Revenue

Sure, lead generation isn't a new concept for 2019 but as the financial services industry evolves so does the way of accessing and connecting with new prospects. As more prospects use technology to seek out financial advice and guidance, financial advisors must use digital marketing to reach their ideal client base and stand out from the competition. Not only is it essential for firms to have a user-friendly website but it's also critical they leverage a combination of social media, email marketing, video marketing and SEO to increase lead generation and ultimately sales. ■

Samantha Russell is Chief Marketing and Business Development Officer of Twenty Over Ten, a digital marketing platform for the modern financial advisors.

Is There Enough Risk in Your Fixed Income Portfolio?

By Jan van Eck
VAN ECK

Equities have had a strong run so far this year, but with interest rates having fallen so dramatically recently, how should investors be positioning their fixed income portfolios?

Some investors, concerned that lower interest rates mean a global recession, will be thinking about taking a more conservative approach to fixed income. We don't agree with this and believe it is wrong to avoid either high yield or more aggressive fixed income, like emerging markets. Since the financial crisis, many investors have been too conservative, focusing on short-term and high quality income vehicles. This left a lot of return on the table. In the current environment, we believe that investors should consider whether they have enough risk—both credit and duration—in their fixed income portfolios.

Although U.S. fundamentals are important, the Chinese government has been stimulating its economy since last summer and continues to push growth. The results can be seen in the country's Purchasing Managers' Index (PMI) releases. While the government is concerned about its trade dispute with the U.S., we believe China is "okay" and that we are not heading toward a global recession. We see no reason why investors should overly de-risk their fixed income portfolios.

Find That Yield

As investors look at where they can find yield, we think U.S. high yield offers a potential opportunity. While we believe that there is no value in the short end of the curve, with yields of approximately 1%, we believe high yield and emerging markets are where investors can still get a nice yield.

If investors are feeling super-conservative, floating rates may present a good option. The VanEck Vectors® Investment Grade Floating Rate ETF (FLTR®) provides exposure to U.S. dollar denominated floating rate notes issued by corporate issuers and rated investment grade. With floating rate notes, investors may get a yield of almost 3%.

Equities may be up 19% on the year so far, but earnings are not growing that much and a big positive surprise for equities seems unlikely in our opinion. This is why we are suggesting that investors look at fixed income. ■

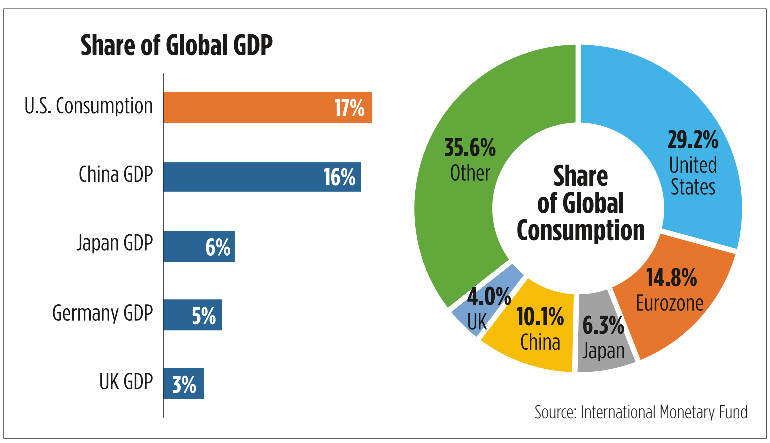
Jan van Eck is CEO of VanEck.

U.S. Consumption: Leading the Way

By Elias Belessakos, Timothy Kearney, Kurt Kringelis, Barbara Reinhard and Vinay Viralam
VOYA INVESTMENT MANAGEMENT

Bad news sells newspapers. The usual suspects do not elicit surprise. Events like natural disasters and political scandals routinely appear "above the fold" in an appeal to readers' negativity bias. In recent headlines, however, a more unlikely villain has emerged: growing leverage on corporate balance sheets.

Make no mistake, risk is elevated. This is particularly true for the broader corporate credit arena. Central banks responded to the global financial crisis by providing unprecedented amounts of liquidity, which fueled debt market growth and investor risk-taking. As a percentage of GDP, U.S. non-financial corporate debt is near the peaks seen in the tech bubble of the late 1990s and the housing bubble of the mid-2000s. Yet like any risk, evaluating its potential severity requires context. Lost in the headline noise surrounding the demise of corporations is this important fact: the U.S. consumer continues to function as the single largest economic force in the world, representing approximately 17% of global GDP. This is greater than the entire GDP of China and more than the aggregate GDP of Japan, Germany and the UK combined. In the context of global consumption, the U.S. holds a 29% share.



Why It Matters Now: U.S. Consumer Growth Sustains Economic Expansion

Despite growing risks in the corporate space, the strength in U.S. consumption is contributing to what is currently the second longest economic expansion ever…soon to become the longest. The "Great Moderation," coupled with stronger risk management frameworks, has led to an economic system with stable underpinnings.

Contrary to headlines indicating a looming recession, we expect four primary catalysts will support the American consumer base and prolong the current economic expansion:

1. **Resilient Consumer Sentiment**
2. **Consumer Credit Expansion**
3. **Positive Labor Market Dynamics**
4. **Accommodative FOMC Policy** ■

Elias Belessakos, PhD, Senior Quantitative Analyst; Timothy Kearney, PhD, Asset Allocation Strategist; and Barbara Reinhard, CFA, Head of Asset Allocation are in Multi-Asset Strategies and Solutions at Voya. Kurt Kringelis, CFA, CPA, JD, Head Macro Credit Strategist and Vinay Viralam, CFA, Asset Allocation Strategist are in Fixed Income at Voya.

Voya Fixed Income solutions are always tailored to fit.

Solutions that are fitted, values that are fixed.

In a world of unlimited options, there is no need to compromise. Voya Investment Management prides itself on its proven ability to offer both customized and traditional fixed income solutions that are skillfully made and managed. The power of our diverse perspectives is how we discover opportunity across the fixed income spectrum and through market cycles. Gain a trusted partner that is built to prioritize your needs.

To learn more about Voya Investment Management's unique approach, visit **voyainvestments.com**

INVESTMENT MANAGEMENT

Volatility Calls for Good Defense

By Kenneth Van Leeuwen
VAN LEEUWEN & COMPANY

After several years of relative stability, volatility is back in a big way. There's no better evidence than portfolio performance in the fourth quarter of last year, when lots of things tanked and the first few months of 2019, when those losses were recouped and more. With that in mind, advisors should consider a more conservative posture for clients' portfolios.

The Fed may have signaled its intention to leave interest rates alone for the time being, that doesn't guarantee smooth sailing for the remainder of the year. The latest round of tit-for-tat tariffs in our trade dispute with China, while not likely to trigger a recession, are all but certain to slow economic growth. It's been estimated that higher prices due to tariffs and more expensive imports cost the average American family more than $400 last year and that this latest round will likely double that figure.

Many investors have done especially well with tech stocks over the last few years, but while we wait to see how the trade disputes are resolved, this might be an opportune moment to pull some tech profits off the table and move them into more stable allocations. High-quality corporate bonds, which can deliver a dependable rate or return, could be a good place to shelter some of those gains. While an allocation to tech stocks is still a good bet, portfolios over-weighted in that sector may want to consider doing some seasonal pruning of their positions.

That strategy seems to be resonating with clients who are starting to feel skittish. The 24-hour news cycle has made people much more aware of what's going on in the markets and I think that's made many behave more conservatively. They like the gains (who doesn't) but are fearful of watching them slip away. Increasing allocation to bonds and high-quality corporates could be just the right defensive move.

As far as the remainder of 2019, history tells us that markets that go up as strongly as they have in the beginning of this year, there's usually a pullback, somewhere in the 8% or 9% range, toward the middle of the year. With all the volatility, that seems likely to hold true in this instance as well. If I had to make a guess, I'd say we're going to end the year somewhere like where we are now—with some volatility and a little bit of a correction.

As we head into the 2020 elections, the President is going to want to run on a platform of a strong economy and job creation. In order to make that credible, he's going to need to keep the momentum going. Hopefully the political considerations of campaign season will tamp down some of the overheated rhetoric and lead to some rational resolution of the trade crisis before it does too much damage. ■

Kenneth Van Leeuwen is managing director of Van Leeuwen & Company, a wealth management firm he founded in Princeton, NJ in 1997.

2019 Midyear Investment Commentary—Certain Uncertainty

By Joshua Miller, CFA, CPA, CIPM
WARREN AVERETT

The first half of 2019 has been a wild ride! Coming off the fourth quarter of 2018's significant pullback, markets appeared not to have a care in the world as they tore through the first quarter of 2019. Then, in an abrupt about-face over trade concerns, the market looked like it was plunging back down in May, only to bounce back in June. Such sudden twists and turns after a long period of low volatility have many investors wondering what is next. Unfortunately, no one really knows what will happen next, but we think the perspective we've provided to the questions below can help us get closer to an answer.

Is a recession likely in the near-term?

The short answer is probably not. GDP grew at over 3% in the first quarter of 2019 and while current second quarter estimates are lower, full year estimates for 2019 are still in the 2.0%-2.5% range. To put this in perspective, our economy has not experienced annual growth above 3% since 2005. In addition, unemployment is still at 50-year lows, wage growth continues to tick up and the Fed has held a more dovish stance on rates. Most leading indicators give us little reason to believe a recession is lurking around the corner.

Will volatility continue?

Yes! While a recession in the near-term does not seem likely, there is a wide consensus among investors and economists alike that we have firmly entered into late expansion territory. Usually, this period is associated with increased market volatility due to an overall slowing in most growth prospects. Once you add that information with continued trade war woes, a highly controversial U.S. 2020 election and Brexit uncertainty, volatility seems all but definite.

Speaking of trade wars…

Should investors be worried? Yes, but not as much as they think. There is little debate from most economists that tariffs and overall protectionism is bad for the global economy. Until recently, it seemed that the U.S. and China were close to reaching a deal. However, both sides have appeared to dig their heels in recently by escalating tariff threats, not lowering them. While this is definitely concerning, there is still good reason to believe a deal will be reached sooner, rather than later. President Trump's re-election bid has largely hung

its hat on the economy, giving him good reason not to drag out a trade war into 2020. Likewise, China's economy has slowed since the trade wars began, and economists expect it to slow more if the war continues. This puts significant pressure on both leaders to reach some kind of a deal, if not a superficial one, that each president can take back to their constituents as a "win."

The future of the markets is uncertain as always, but one thing remains constant: for those who have invested in a diversified portfolio and have worked to reach an appropriate risk allocation, we believe they have little reason to worry. Markets go up and down in the short-term, but have stood through much more perilous times than these. In times of high volatility, the patient investor comes out on top. ■

Joshua Miller serves as Senior Investment Analyst at Warren Averett Asset Management. Click here to learn more about him or to contact him directly.

Disclosure

Learn more at www.WAasset.com.

In Search of Balance

WELLS FARGO ASSET MANAGEMENT

As we head through the second half of 2019, we believe the U.S. economy will continue growing at a moderate rate. The big question: Will we go back to an environment of synchronized global growth or stay mired in a bog of synchronized slowing? Our teams, generally, expect this economic cycle will extend rather than contract imminently.

Globally, risky assets rallied for most of the first half with a dovish pivot by central bankers and an apparent thaw in the trade tiff between the U.S. and China. Suddenly, BAM!—volatility from a tweet about trade talks. Times like this require a rethink about risk management.

The traditional approach to managing a portfolio involves targeting certain capital allocations, perhaps favoring one asset class over another, depending on the outlook. A focus on capital allocation can still give rise to a rather bumpy ride. And bumpiness can induce bad behavior among investors, if they suddenly lose faith in their strategic allocation, which is designed to get them to their long-term goals.

Rather than focusing on balancing capital allocations, we think focusing on balancing risks can increase the probability of portfolio success. Specifically, to help our clients improve the probability of portfolio success, our teams are following a three-pronged approach:

1. **We're focusing on balancing the risks that matter.** Given a moderate growth outlook and the prospects of inflation remaining subdued, we center our attention on dealing with duration risk. Interest rates may stay historically low, but we believe that they are likely to rise during the second half of the year.
2. **We're exploiting volatility as an opportunity.** Some of our strategies employ downside risk hedging to help reshape the distribution of portfolio outcomes. We also see a symmetric opportunity with volatility, as it provides us with chances to be opportunistic buyers, as well as opportunistic sellers. This is especially the case across asset classes—high-quality bonds may look categorically rich, while emerging market equities may look categorically cheap.
3. **We're adding some alpha to our portfolios.** A simple, passive, "get your beta on" approach may have performed well during the double bull-run of equities and bonds. But if the bull is getting winded, a shift from "just beta" to "beta plus alpha" may make sense.

The diverse teams of Wells Fargo Asset Management and their multiplicity of views give our clients access to a full scope of talents and tools for solving investment problems. Each of our teams uses their distinctive approaches to investing to support their portfolio positioning. But we also draw strength from an exchange of ideas. Calling upon that culture of collaboration, this summary of our investment insights paper is meant to give you a glimpse of the issues that are top-of-mind across our teams, asset classes, and regions. Please read the full report for a fuller understanding of our market outlook and where we've been finding opportunities.

For more actionable insights, please visit wfam.com/midyear to download your complimentary copy of mid-year *Investment Insights*. ■

Learn more at wfam.com/midyear.

WELLS FARGO Asset Management

Mid-year Outlook 2019: Easy Money Meets Heightened Risk

By Juan Carlos Artigas
WORLD GOLD COUNCIL

Risk on, risk off

The first half of 2019 proved quite eventful for financial markets. Stocks completely retraced their Q4 2018 losses by the end of April just to pullback again in May. And as central banks have become more accommodative, global bond yields have reached multi-year—even record—lows. As investors looked to balance continuously higher stock prices with an increasingly uncertain environment, gold prices surged in June making gold one of the best performing assets of year-to-date (Chart 1).

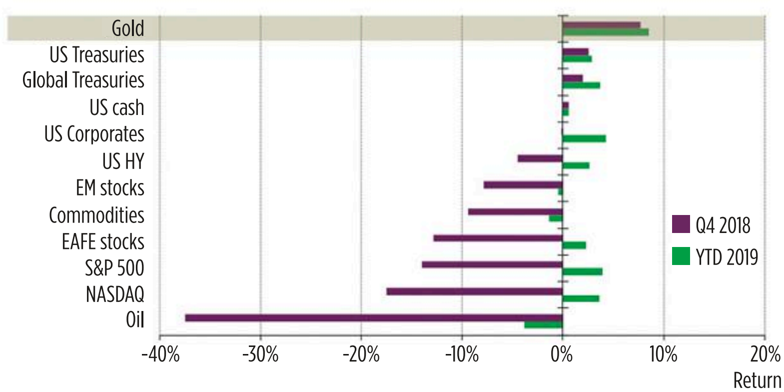
Why gold, why now

There are four attributes that make gold a valuable strategic asset[1] by providing investors with:

- a source of return
- low correlation to major asset classes in both expansionary and recessionary periods
- a mainstream asset that is as liquid as other financial securities
- a history of improved portfolio risk-adjusted returns

These attributes are by-product of the dual nature of gold as a consumer good and an investment (Chart 2) which, in turn, respond to four broad set of drivers:

Chart 1: Performance of major assets during Q4 2018 and YTD 2019*



*As of 24 June 2019. Returns based on the LBMA Gold Price, Bloomberg Barclays US Treasury Index and Global Treasury Index ex US, ICE BAML US 3-month T-bill Index, Bloomberg Barclays US Corporate and High Yield Indices, MSCI EM Index, Bloomberg Commodity TR Index, MSCI EAFE INdex, S&P 500 & NASDAQ Indices, and Bloomberg Oil TR Index.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

- **Wealth and economic expansion:** periods of growth are very supportive of jewellery, technology and long-term savings
- **Market risk and uncertainty:** market downturns often boost investment demand for gold as a safe haven
- **Opportunity cost:** the price of competing assets, such as bonds (through interest rates), currencies and other assets, influence investor attitudes towards gold
- **Momentum and positioning:** capital flows and price trends can ignite or dampen gold's performance

In the current environment, we believe that the relevance of gold is as important as ever.

Investor sentiment in gold has turned bullish in the latter part of 1H 2019, as net long positioning in the futures market and inflows into gold-backed ETFs increased substantially. But beyond momentum, we believe that the there are three key underlying trends that will likely support gold demand and price performance.

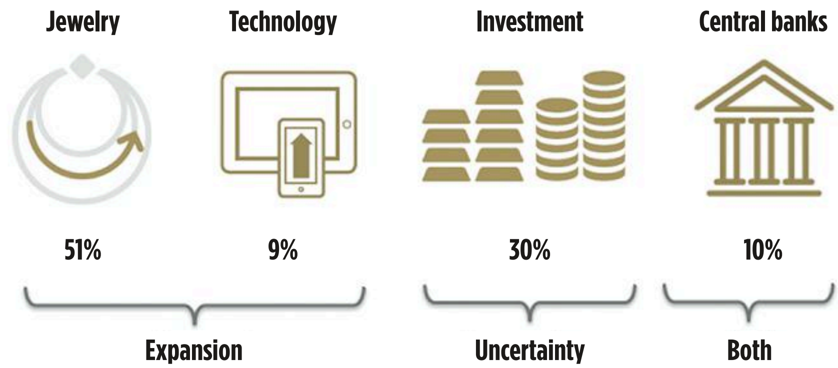
First, financial market uncertainty. Investors have been pushing stock prices higher and valuations have become expensive—especially when taking into consideration the current level of interest rates (Chart 3). At the same time, trade tensions and geopolitical instability are making many investors worried that market volatility may not only trend up but potentially spike. As such, investors will likely continue to look for high quality, liquid assets such as gold to hedge potential downside risks.

Second, global monetary policy. Central banks have become increasingly dovish. Only a year ago, bond investors were expecting developed market central banks to tighten policy either by increasing rates or unwinding remaining quantitative easing measures. Over the past few months, expectations have made a U-turn. At the time of writing, the ECB has not only signaled bond purchases but potential rate cuts. And probabilities derived from the prices of Fed fund futures indicate that the US Fed may cut rates by up to 3 times (75 basis points) by the end of the year—which has been supported by comments made by members of the Federal Open Market Committee. Our research indicates that gold prices have historically increased in periods of low to negative interest rates.[2]

Looking beyond 2020, the long-term performance of gold will likely respond to structural reforms implemented in emerging markets, which make up 70% of gold consumer demand. In particular, key countries such as India and China have begun to implement economic changes necessary to promote growth and secure their relevance in the global landscape. ■

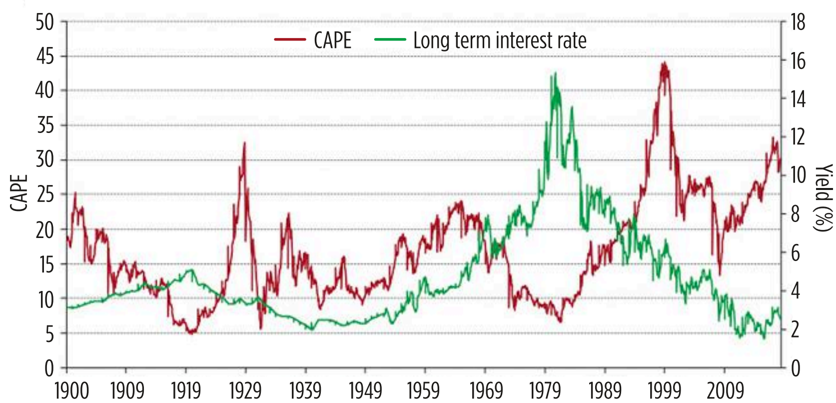
Chart 2: dual nature of strategic demand

Average annual demand = 4,350 tonnes* (approx. US$177bn)



*Based on 10-year average annual demand estimates ending in 2018. Includes jewelry, technology, bars, coins, and ETF demand. It excludes over-the-counter demand. Figures may not add to 100% due to rounding. US dollar value computed using the LBMA Gold Price as of December 2018.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Chart 3: Stock price valuations and long term interest rates*



*As of 31 May 2019. The P/E 10 ratio is calculated as follows—take the annual EPS of an equity index such as the S&P 500 for the past 10 years. Adjust these earnings for inflation using the CPI. Take the average of these real EPS figures over the 10-year period. Divide the current level of the S&P 500 by the 10-year average EPS number to get the P/E 10 ratio or CAPE ratio.
Source: Robert J. Schiller

WORLD GOLD COUNCIL

Juan Carlos Artigas joined the World Gold Council in 2009 and is the Director of Investment Research. He and his team provide insights on gold's drivers and its role as an integral part of investor portfolios.

1. World Gold Council, The relevance of gold as a strategic asset, March 2019.

2. World Gold Council, Gold in a world of negative interest rates, March 2016.

Learn more at www.gold.org.

The Monthly Subscription Model: From the Black Sheep to the Next Big Thing

By Alan Moore, MS, CFP®
XY PLANNING NETWORK

The financial planning industry is changing. For the past 20 years, the AUM model—from the rise of the RIA to the fee-based shift at broker-dealers—has gained momentum, growing in popularity to the point where RIAs are the fastest-growing industry channel and even amongst the top-50 broker-dealers, the majority of revenue now comes from AUM fees and not commissions. But its reign as high king may soon come to an end.

Is the AUM model, with its focus on the accumulation, then decumulation of a retirement portfolio, currently successful? Yes. Will this model continue to be successful in the future? Yes, but only for the subset of advisors who can outcompete the rest.

The challenge is that only 7% of US households have enough liquid assets—at least $100,000—to invest in a liquid account that can be transferred to an advisor and are willing to delegate to an advisor. Considering there are nearly 300,000 financial advisors in the US, there may not be enough clients for every advisor to successfully operate under the AUM model.

The value of advice, however, continues to increase as more clients recognize the benefit. They just need the opportunity to access that advice, which means charging them on the income they do have rather than on assets they don't, and may never, have.

In other words, the future of financial advice may not be charging 1% of assets, but 1% of income instead. (Or, as a recent Kitces study shows, as much as 2.5% of income.)

Ultimately, there is considerable opportunity for profitability in charging based on income. Advisors who were once limited to 7% of the marketplace under a traditional AUM model now have the opportunity to serve the remaining 93% of households who would not otherwise have access to financial advice.

Charles Schwab's recent switch from charging 0.28% AUM for its robo-advisor service to charging a $30 ongoing monthly fee (and a $300 upfront fee for new clients) has thus far shown that even large firms see the profit potential in the subscription model. Fee-for-service models may soon get their day in the sun.

Since introducing its new fee-for-service pricing at the end of March, Schwab's robo-advisor service has seen a 25% increase in account opens, a 40% increase in average households enrolled, and a 37% increase in new-to-Schwab household enrollments.

XY Planning Network itself has grown to 1,000 advisors—an RIA model that operates at the size of a top-30 independent broker-dealer by advisor headcount. And just six months since launching its Enterprise platform, AdvicePay has grown to over 20,000 advisors under enterprise contract as hybrid broker-dealers adopt the model as well.

The success of a subscription-based model in financial services should come as no surprise given that consumers increasingly prefer to pay for services of all types on an ongoing basis; savvy companies like Amazon and Netflix, two of the world's most valuable brands, are giving consumers what they want, resulting in their overwhelming success.

Indeed, if a traditional financial institution like Charles Schwab can embrace fee-for-service pricing, then it goes to show that subscription, income-based billing is not a temporary trend—it's a paradigm shift that will continue to shape the future of the industry. ■

Alan Moore, MS, CFP®, is the CEO and Co-Founder of XY Planning Network and AdvicePay.

Learn more at www.xyplanningnetwork.com.

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PBS FOUNDATION

More than media—PBS is a trusted friend, a patient teacher, a reliable source, and a steadfast guide. Now we have an opportunity to pay you back.

Receive income for life while supporting PBS by establishing a **Charitable Gift Annuity** with the PBS Foundation.

Example: A 75 year-old who donates $100,000 cash	
Charitable Deduction	$43,577
Annual Pay-out	$6,200
Tax-Free Portion	$4,550.80
Portion taxed at ordinary income rate**	$1,649.20

**After 12.4 years the entire annuity becomes ordinary income

Visit our website to learn more about the PBS Foundation and our online tools. To request a complimentary estate planning guide, please call us or send an email.

*Age restrictions and minimums apply.
PBS Foundation adheres to the ACGA rates.
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