APRIL 2019
Financial Planning
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# Financial Planning

INVESTED IN ADVISORS | APRIL 2019
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**In a major shift on compensation, RIAs are focusing on firm success rather than individual performance**

THAT WAS THEN

# THIS IS NOW

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An Article From the Brighthouse Financial Insights Panel

A group of leading independent experts to help you and your clients stay ahead of the curve.

# Knowledge Pays

## Why building your clients' financial knowledge is good for them and for your business.

Taking responsibility for improving your clients' financial knowledge can bring big benefits for them and for your business. Financial capability expert J. Michael Collins and advisor champion Matt Oechsli share their takes on why building financial knowledge is so important.

Matt and Michael explain how:

- Better financial knowledge helps clients
- Better financial knowledge helps your business

## Better financial knowledge helps your clients

Clients often struggle with financial knowledge, but there are some cases in which advisors may not see it as their responsibility to help their clients improve. Michael says that there are good reasons to challenge this point of view.

"There is a direct correlation between financial knowledge and participation in financial services," he explains. "People with higher levels of financial knowledge are more likely to save, invest, or be engaged in financial products than those with lower levels. They're also more likely to work with an advisor."

According to Michael, the specific benefits of building your clients' financial knowledge are:

**Clients tend to save more for retirement**
When you educate your clients on finance, you can expect to see their savings rates go up "about 10%." This means that, in Michael's experience, your clients could save "up to $3,000 more over just a few years."

**Clients are more likely to pay off debts and improve credit scores**
Michael says that within six months to a year of starting a financial education plan for your clients, you can expect to see their credit scores begin to increase.

**Clients often make better financial decisions**
How much your clients know about finance influences the quality of the decisions they make, such as whether to save or to consume, and the type of financial products they buy. The more your clients know, the easier it becomes for you to guide them to the right decisions.

**Clients are more inclined to stick to financial plans**
Michael notes that in many cases, advisors who improve their clients' financial knowledge see that they plan ahead more effectively. This helps to shift their focus from short-term to long-term goals.

**Clients tend to feel more confident financially**
Clients who better understand financial matters often feel more in control. This, in turn, boosts their financial confidence, well-being, and knowledge. Better financial knowledge sets in place the foundation of healthy finances over the course of their lives.

Michael cautions that it's important not to expect immediate results and that "little and often" is the best approach. Educating your clients is a long-term process that pays dividends down the line.

## Better financial knowledge helps your business

There are a number of ways in which better financial knowledge among your clients can also benefit your business. As Michael says, "The more people can feel like they have some control and feel like they have some knowledge, the more they'll be willing to engage and work as an ally with their advisor."

This means that once you start building your clients' financial knowledge, you will likely be able to:

**Develop stronger long-term client relationships**
Matt points out that educating your clients builds trust and "helps put you in a more professional, personal light," making it clear to them that they are getting great value from their relationship with you.

**Get more referrals from your clients**
Clients who trust you, understand the value you bring, and see you as an ally are more likely to refer you to the people they know, which is essential for business growth. According to Michael's observations, "They are going to become a fan of you, and this means they are more likely to refer other people to you and use word-of-mouth influence on your behalf – friend to friend, colleague to colleague."

**Sell more financial products**
In Matt's experience, greater financial confidence, coupled with a strong, trusting relationship, makes it more likely for clients to engage with you. It can also mean that they'll make better, quicker decisions about the sort of products they want.

**Promote transparency, which affluent clients particularly value**
Financial education also promotes a feeling of transparency between you and your clients, which is particularly valued by affluent clients. According to Matt's research, only 5% of affluent clients will automatically choose the cheapest financial advisor from a range of options; 60% will pay fair value with the going rate; and the remaining 35% are willing to pay a premium, but they expect transparency from their advisor.[1]

**Make your job easier**
In Matt's experience, clients with good financial knowledge "are not creating a headache for the advisor." This is because they are more likely to know what they need to do to achieve their goals, and understand the strategy and products the advisor presents to them.

Educating your clients on finance can take time, but there are potential long-term benefits for everyone.

**Learn more on how to help your clients improve their financial knowledge by visiting brighthousefinancialpro.com/insightspanel**

Listen to the podcasts | Read the articles | Watch the videos



[1] "Affluent Consumer Research Report: Relationship Management/Relationship Marketing Nexus," The Oechsli Institute, 2017.

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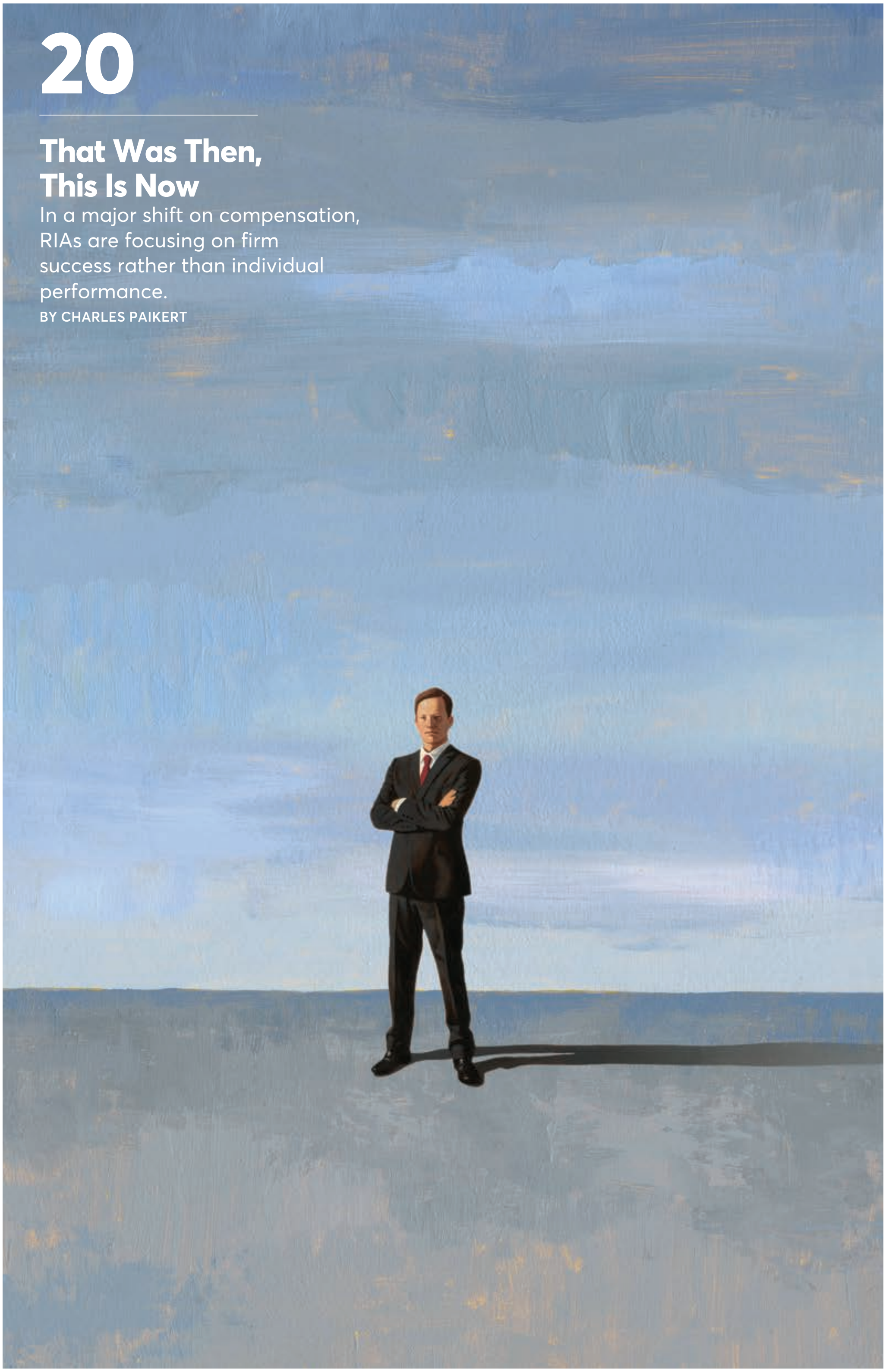



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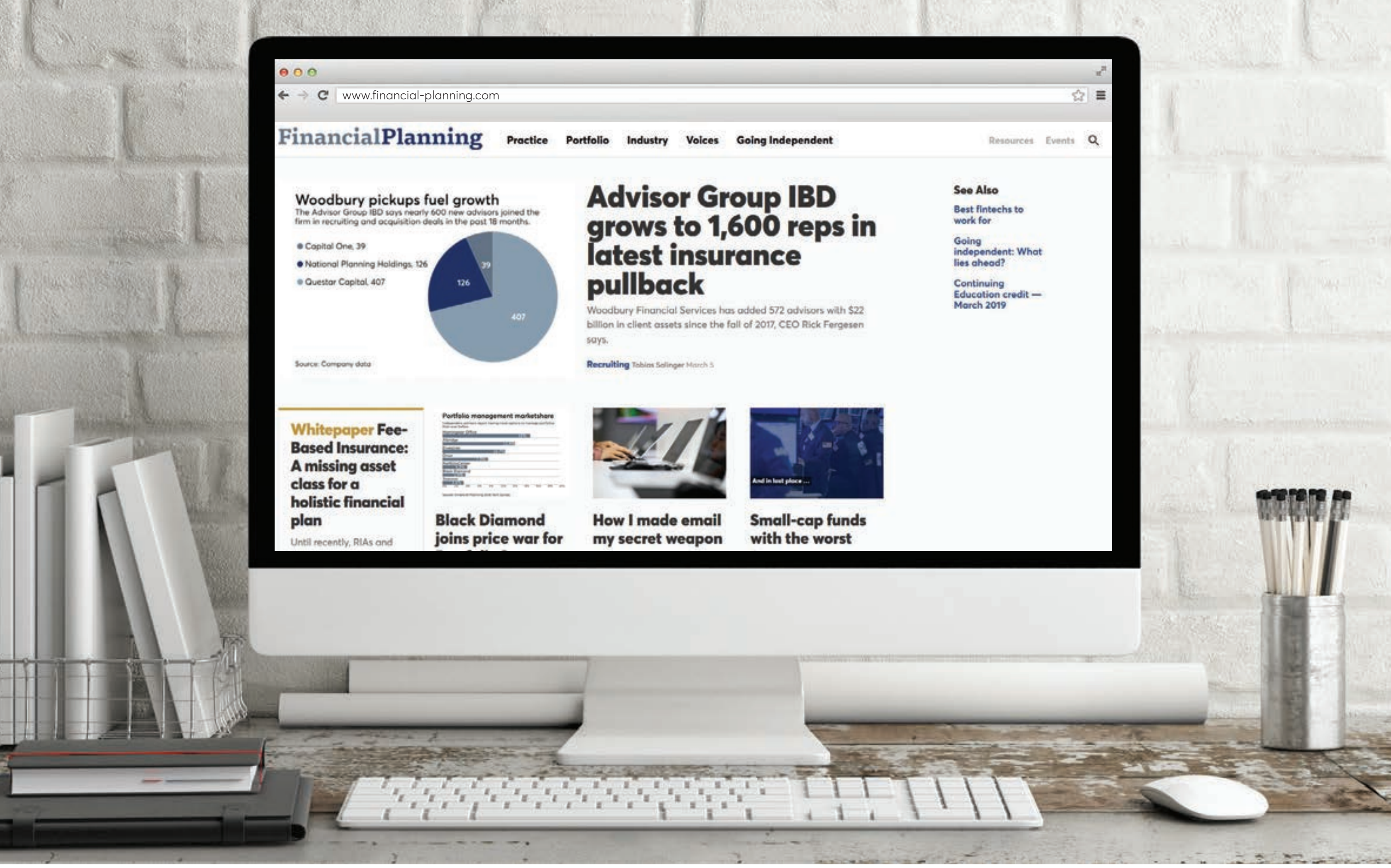
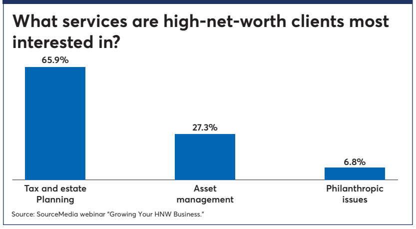



## WEB SPECIAL

**Going Indie: What Lies Ahead**

Five advisors in Merrill Lynch's Savannah, Georgia, office made the biggest decision of their financial careers one morning last March. They quit. There was a lot at stake: clients, more than $1 billion in AUM, a potential lawsuit and, unavoidably, sleep. Was it worth it? Find out: https://bit.ly/2EmHeOF

## GUIDE TO GROWTH




**Coping with Lower Returns**

As bond yields have dropped along with real returns for stocks, planners are seeking ways to distinguish themselves. For those who work with ultrahigh-net-worth clients, access to the top private equity firms is one way to do it, according to one professor. Read more: https://bit.ly/2N6WGRL

## EVENTS

**May 5-8**
**IWI Experience**
Las Vegas
https://bit.ly/2CVM8Cs

**May 6-9**
**FPA Retreat**
La Jolla, California
https://bit.ly/2s68vOy

**May 8-10**
**Morningstar Investment Conference**
Chicago
https://bit.ly/2xGWfXZ

**May 13-16**
**NAPFA Spring Conference**
Austin, Texas
https://bit.ly/2s29nFD

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## Editor's View

# Daunting but Doable

Advisors must adopt new strategies and grow their expertise, no matter the stage of their career.

The textile designer on the other end of my phone had a question. "I think I want to become a financial advisor," he said. "I've always been good at managing my family's finances and investments. What's the best way to make this career shift?"

When I mentioned the query to *Financial Planning* contributing writer Carolyn McClanahan, she looked alarmed. "Anyone who has managed their own investments over the past 10 years has probably done a good job," she said during a recent visit to New York. An advisor's career has evolved far beyond investment management, she went on, adding that automation can do much of that work. Planners must be adept at other services such as retirement advice, tax planning, strategies for paying for longer life spans and increased health care costs, she noted.

I later passed on McClanahan's advice to the caller, a 47-year-old named Alexander Henschel who had been laid off from his job as a designer of textiles for home furnishings. He had received similar advice from other planners, and he knows a little something about trying to stay relevant. "Manufacturing in the U.S., especially in textiles, has been rough," he told me. "I see all my competition and customers having problems in this industry. Planning is definitely something I can see myself doing after textile design."

Henschel may be at the beginning of a new career, but his prior experience sounds a warning knell for all planners, echoed by McClanahan. Artificial intelligence and automation is forcing massive change in all industries, from manufacturing to wealth management. Advisors must diversify their knowledge and services.

Surprisingly, the lesson also applies to firms' compensation policies. When reporting his feature, "That Was Then, This is Now," Senior Editor Charles Paikert learned of a subtle but dramatic shift taking place.

"The more reporting I did, the more it became apparent that individual compensation metrics were giving way to team-based and firmwide goals," Paikert told me. Some firms are rewarding advisors for such successes as initial introductions, client outreach and strong ratings on client satisfaction surveys. It's a big departure from the historical model that rewarded a few, highly performing advisors. Paikert tells me the trend is likely to accelerate.

Whether you are a new planner, an experienced one or a firm considering a new compensation structure, diversification is imperative. As Henschel, the wannabe planner, wrote to me on LinkedIn: "It's a bit daunting but exciting at the same time." **—Chelsea Emery**

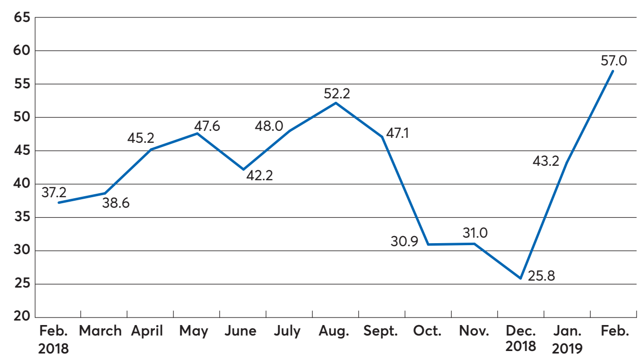
## Retirement Advisor Confidence Index

# Client Confidence Soars

Investor worries have receded and retirement contributions are flowing after the Fed shifted toward a more accommodative path for interest rates.

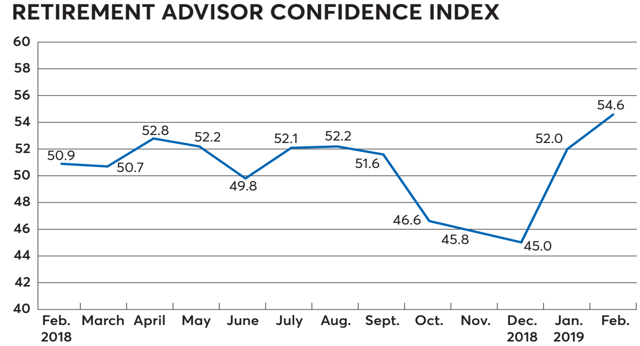
**By Harry Terris**

### CLIENT RISK TOLERANCE




Source: SourceMedia Research

### RETIREMENT ADVISOR CONFIDENCE INDEX




Source: SourceMedia Research

Advisors are noticing client confidence rebound as the labor market strengthens, trade tensions ease and a rocky fourth quarter moves farther away in the rear-view mirror.

Risk sentiment recovered sharply after being hammered by stock volatility and a rogue's gallery of economic concerns late last year, according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers. The index's risk tolerance indicator jumped 13.8 points to 57, returning to expansion territory for the first time in six months.

Fears of slowing global growth and self-inflicted wounds receded after the partial government shutdown ended and President Trump decided against significantly increasing tariffs on Chinese imports. The Fed shifted toward a more accommodative path for interest rates, which also soothed client nerves.

Mostly, however, advisors say their clients' improved sentiment may reflect recency bias following better stock performance. "Markets are up, so confidence is up," an advisor says.

Clients have started to contextualize recent ups and downs, advisors note. Reminders that 2016 and 2017 were unusual steady increases, and that overall 2018 wasn't unexpected, helped calm fears.

Improvement in risk sentiment was the biggest driver of the 2.6-point gain in the composite RACI, which also tracks asset allocation, investment product selection and sales, planning fees, new retirement plan enrollees and client tax liability.

The component tracking the amount of client assets used to buy stocks rose 1.6 points to 62.1 — its highest level in more than a year — reflects the "risk on" mood, advisors say, as price gains draw investors into the market.

Rotation into equities is consonant with positive outlook among some advisors. "Recovery after 2018's fourth quarter has been steady, and we have reduced client cash allocation accordingly," an advisor says. "Instead of holding 24-36 months of cash for retirees, it's back to 18-24 months."

Client flows into cash have also been strong, as some clients lock in gains, and rebalancing formulas dictate a reduction in stock positions. "When the market was down, there was buying opportunity," an advisor says. "But when it

*The Retirement Advisor Confidence Index, published in partnership with ADP®, is created by the editors of* Financial Planning *and is based on a monthly survey of about 300 advisors. Visit financial-planning.com for more results.*

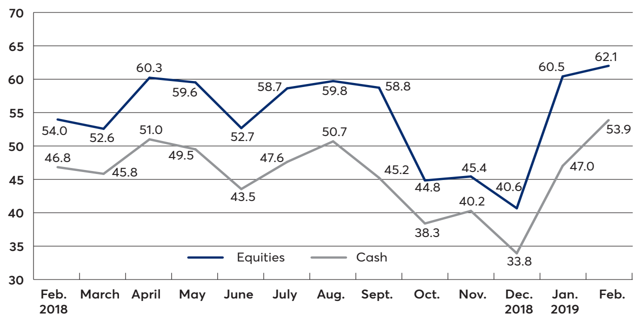
goes up so quickly, we need to rebalance to keep aligned to asset allocation as set forth in" investment policy statements.

The index component tracking flows into cash gained 6.9 points to 53.9. Readings on overall retirement plan flows were healthy, with the component tracking the dollar amount of contributions adding 5.3 points to 63.9. The component tracking the number of products sold rose 3.4 points to 56.4.

Both measures exceeded their year-ago levels.

In addition to seasonal factors, such as deadlines for contributions to tax-protected accounts and profit-sharing distributions, advisors say that favorable market performance is playing a role. "The market was looking stronger since the end of 2018, so people were getting motivated to contribute more," an advisor says. **FP**

### ASSETS ALLOCATED TO EQUITIES AND CASH

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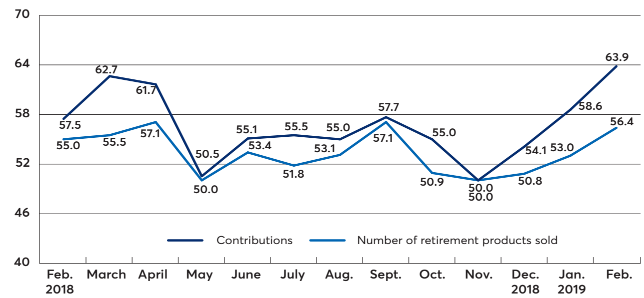
### CONTRIBUTIONS TO RETIREMENT PLANS AND RETIREMENT PRODUCT SALES




Source: SourceMedia Research

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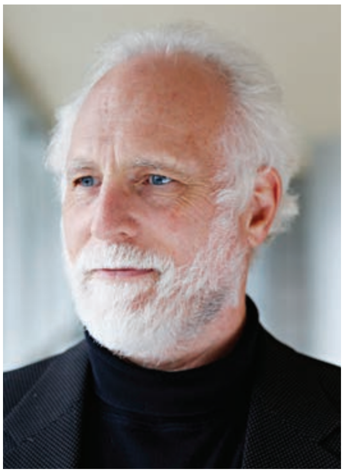

# Secession Planning

## The FPA is planning to dissolve local chapters. Those affiliates should take matters into their own hands.

**By Bob Veres**

Many of you likely know the Financial Planning Association has launched an ambitious initiative which aims to dissolve 88 chapter affiliation agreements and turn those local chapters/state organizations into branches of the Denver home office.

And if you've been reading my Inside Information blog or Michael Kitces' Nerd's Eye View posts, you know we think this has the potential to do great harm to the FPA.

In short, we believe that the chapters have historically provided just about all of the benefits of FPA membership.

In contrast, the staff leadership at the FPA home office in Denver has led the organization to an unfortunate membership decline over the organization's 20-year existence.

In light of this, does it make sense for the staff leadership to suddenly take over supervision of the local chapters?

Currently, FPA board members are engaged in a listening tour at local chapters around the country, hoping to quell the rising controversy surrounding a proposal that many chapter officers regard with intense suspicion.

If I were a betting man, I would bet that the listening tour is not actually about gathering information, but instead showing that the FPA cares, after which FPA national will unilaterally dissolve all the affiliation agreements and consolidate all the various chapter reserves into a single FPA-controlled bank account. What can the chapters do but go along with this?

After speaking with one very concerned FPA member, I now realize that there may actually be some potential recourse if chapter members decide that this move is not in their best interests.

Michael Ross, a planner and the founder of Financial Connection in Boca Raton, Florida, suggests that the FPA may actually have become an outmoded vehicle for the profession, and also happens to have the wrong business model.

"What the profession needs is a true professional organization," Ross says. "The FPA tries to be both a professional and a trade organization, but the big tent approach doesn't work for those of us who aspire to create a real profession."

**If just four or five chapters did this, they'd have the scale to negotiate group insurance coverage.**

Currently, the FPA collects annual dues of $375 a year, all of which go to headquarters. Each chapter is permitted to add $50 or $100 to that in order to pay for its local programs.

Ross thinks this is backwards "For $375, we are given a magazine, some product discounts, a few conferences we can attend at a discount, some webinars which cost little to produce but we have to pay for, and a CFP registry which generates little consumer traffic — especially compared to groups like NAPFA," he says.

The package does not, he says, include a comprehensive chapter management technology package, which would make it easier for local volunteer leaders to manage those 89 legal entities.

Meanwhile, after collecting either less than a third or a sixth of the national dues, the local chapters provide a value package that includes local meetings, programs, speakers, and in many cases an annual symposium as well.

Ask FPA members where they get the most benefit from their organization and inevitably they'll talk about getting together at the local level and the CE credits and education they earn without having to travel to a remote location.

So the revenue model question comes down to this: is there an alternative to sending all the chapter dues to the organization's home office?

Ross proposes that chapter leaders consider creating a true professional organization founded exclusively for CFP practitioners.

Wouldn't that be really hard? Not really. As Ross envisions it, entire chapters would preemptively secede from the FPA and collect membership dues directly from their members.

If just four or five chapters were to do this, they'd have the economies of scale to negotiate group insurance coverage for their members.

The local organizations could pool their resources and fund a national support staff whose role would actually be quite limited — and, therefore, cost-effective.

The centralized office (in Washington, D.C.?) would build a consolidated membership database, provide a single robust website that each local chapter could build its own pages on, and negotiate group health and disability coverage.

The new organization (the CFP Society?) would function much like the existing Estate Planning Council, where the financial center of gravity is local — as close to the actual members as possible — rather than national. Ross believes that a national convention could be created somewhere down the road but not at the expense of local education.

How would it work financially? "My current FPA chapter has 225 members," Ross says. "Local dues are $75. If we could recruit 85 members in the new local organization paying $200 each, our local budget would be equal to the local FPA chapter. Even with $50 additional being charged to pay for a national staff, the [total membership] cost would drop from $450 to $250. That," he says, "is a big savings for giving up a magazine."

**The FPA is on a listening tour hoping to quell the controversy surrounding a proposal that many chapters regard with suspicion.**

Beyond that, a new professionally focused entity would allow the planning community to move on from the big tent approach.

It would recruit only advisors with the CFP designation — no sales agents or wholesalers.

The new organization would focus its education and advocacy on issues that address professionalism.

Ross believes that this approach might attract the "other 75%" of CFP professionals who are turned off by the big tent approach and have therefore chosen not to belong to the FPA.

Before long, the new local entities might attract a greater membership than the original FPA chapters.

In Ross's mind, the new entity would be not unlike what the founders envisioned for the FPA back in 2000: A true professional organization with robust member benefits that is the hub of the CFP universe.

And as the OneFPA Network initiative rolls toward its inevitable conclusion, he believes that the possibility of secession is already in the back of the minds of many chapter leaders and FPA members around the country.

They're hesitating because secession may look more complicated than Ross believes it actually is.

"The question, locally, is: Could we get 85 members?" he says. The lower dues would be a positive for many younger CFP professionals, and eliminating the big tent product bazaar would be seen as a positive for the majority of the CFP community that has chosen not to join the FPA.

"I could easily see 50 current FPA members coming over and an additional 50 non-FPA CFP members joining — which would get us started locally," Ross says. "Could we get a few more cities to do the same thing? I hope so."

The alternative, which may be what the FPA board's listening tour will discover, is for the current FPA to require the Denver staff to operate leaner, share more of the revenues with the chapters and return to the original vision of the organization.

Otherwise, there is the danger that many FPA members will lose interest when the local chapter's independence is compromised.

"A lot of CFP advisors have already voted with their feet," says Ross. "I think it's time that we look for an alternative. I don't intend to take my ball and go home," he adds. "I intend to cross the street and work to create something better. I don't think I will be alone." **FP**

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***Bob Veres,** a* Financial Planning *columnist in San Diego, is publisher of Inside Information, an information service for financial advisors. Visit financial-planning.com to post comments on his columns or email them to bob@bobveres.com. Follow him on Twitter at @BobVeres.*

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"2018 Retirement Healthcare Costs Data Report," HealthView Services, 2018
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# How My Unconventional Hires Led to Growth

Some owners are reluctant to give away an equity stake. Here is a solution that worked for me.

By Allan Boomer

Why do some firms grow into behemoths, while others remain small?

While my firm's AUM is below the industry median, our growth rate has been above average. We have successfully doubled our AUM each of the past three years and are now at the $174 million mark. The majority of that growth has been organic; we started in 2012 as a single-advisor shop with just $26 million under management.

As the founder of an independent RIA, my first year in business was mostly spent alone. I was the sole presence, responsible for everything from investment strategy to technology to sales to completing account applications.

Many RIA firms never grow beyond a single advisor. Sometimes finding the right teammate is too hard. Other times a solo advisor finds it hard to give up equity or control. At my firm, growth did not really blossom until I started adding more advisors to the staff.

The first major addition was a college classmate. Not only had we known each other for nearly half of our lives, but she had a wealth of experience in an area where I had very little — institutional clients and retirement plans.

When she joined, I was optimistic that institutional clients would soon follow. In reality, it took over two years before we landed our first substantial retirement plan client.

Those two years of what I'd call "whale hunting" were very challenging because we were a relatively new firm with no institutional clients.

The second major addition was an advisor I met at a two-day wholesalers' conference when we sat next to each other. He and I struck up a conversation and learned that we saw the world similarly. A few years apart in age, we were both raising young families. After a few lunch dates over a year, we decided to share office space to determine if we could get along. After a year, we merged our practices under my firm's umbrella. This was the first time we grew by acquisition, essentially doubling our AUM.

**We've made a few bad hires over the years, including friends and family members. And we've learned the cost of a bad hire is time, money and productivity. Worst of all, it can hurt your company culture and morale.**

The next important hire was a young man who was initially tasked with administrative tasks but who was being groomed to become a full-fledged advisor. He was the younger brother of a guy I grew up with and had been working in periphery roles in the wealth management industry for a few years.

His raw talent needed some polishing and mentoring, but he introduced me to another key hire who soon joined my team. I liked that she came from the entertainment industry, bringing a unique set of experiences and contacts to bear.

By this point, my one-man shop had ballooned to a core team of five advisors, plus a few more hires primarily focused on business development and support. Growth was really starting to happen.

**One bit of advice I give other RIA owners: Share your equity. You can either own 100% of what you have today, or a smaller slice of something far more valuable.**

In quick succession, one of my new advisors leveraged one of my old and forgotten relationships to get us in front of a nine-figure institutional client that we ultimately landed. My admin blossomed into a successful advisor and networked his way into a major center of influence that has referred over $10 million in new business. And a third helped land a major opportunity on the radio that led to a steady stream of new wealth management clients.

What was my contribution? I assembled a dynamic team. I supported their ideas and gave them advice. I showed them how I do business and I also learned from them. We encouraged one another during the rough times and constantly held each other accountable to our goals.

We have also had our share of challenges. We made a few bad hires — which included friends, family members and strangers — who are no longer with the firm. We have learned that the cost of a bad hire is time, money and productivity. However, nothing is worse than a hire who is bad for company culture and morale.

Other challenges to growing a team revolve around logistics (we have had to move offices a few times); coordination (it is important to assign tasks to the right teammate, create operational efficiency and ensure a consistent client experience); and compliance (the more people you have, the more they must be monitored; an action by one person can impact the entire firm).

Our group, which seems to have been assembled by happenstance, now recruits with intention.

We are laying the groundwork to double our assets yet again while improving the quality of the experience of our clients. I could not be prouder.

If I were giving advice to RIA owners, here's what I'd offer:

1. Be open-minded about adding people who are different from you. Those differences can lead to growth.
2. Network with other advisors. They may be competition, or they could be your future business partners.
3. Mentor young planners. You feel the joy of giving back, but you also get to know a potential hire very well. Mentoring is an investment that pays dividends down the road.
4. Share your equity. You can continue to own 100% of what you have today or a smaller percentage of something far more valuable.
5. Lose control. Allow your team to help guide the direction of your firm. If you find the right people, they will take you places you might not have found on your own.
6. Recognize that you do not have all the answers. A team can create mutual accountability — and make you better if you are willing to change.
7. Focus on culture. Culture can be a competitive advantage for your firm — attracting the right talent and repelling bad seeds. **FP**

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***Allan Boomer**, a* Financial Planning *columnist, is managing partner and chief investment officer of Momentum Advisors in New York City. He co-hosts a weekly radio show on SiriusXM Ch. 126 that focuses on wealth building and entrepreneurship. Follow him on Twitter @MomentumAdvice.*


Half of the firm's new space sits empty, ready to absorb a wave of new hires.

# A Focus on M&A

Creative Planning has bulked up organically. Now the firm says it's time to buy.

**By Ann Marsh**

RIA Creative Planning could acquire as many as 100 RIAs in the next several years in its quest to grow to $100 billion in client assets under management.

That's according to the firm's president, Peter Mallouk. "We are determined to become the leading national independent firm," he says. "We are on a mission to do that."

Mallouk has made much of his firm's track record of bulking up to its current $39 billion in AUM solely through organic growth over the past 15 years. The firm is now ready to turbocharge its next expansion through a headlong plunge into M&A, Mallouk says.

To make that happen, the firm has doubled the size of its workforce to 600 in just the past year, and rebuilt its technology infrastructure. It also has moved from its previous headquarters' 30,000-square-foot capacity to a new building with 175,000 square feet in Overland Park, Kansas. Half of that space sits empty, ready to absorb a wave of new hires.

Creative Planning also announced its purchase of the Johnston Group, a Minneapolis firm with $500 million in AUM, and is in talks with "two or three" other prospects, according to Mallouk.

"If it fits, we would do 100" more deals with RIAs, Mallouk says.

Creative Planning's numerous competitors in the race to build nationally recognizable independent RIAs include Edelman Financial Engines, which manages more than $205 billion after the merger of Edelman Financial Services, and Financial Engines, which serves the 401(k) market.

Creative Planning stands apart from its competitors because it's not distracted by private equity backers, while also being run by a CEO who still actively works with clients, Mallouk says.

"That's in my DNA," he adds. "I see clients. I'm a practicing advisor, so I'm very attuned to what clients are thinking about in delivering and making recommendations to them."

The firm's clients have an average of about $1 million to invest, he added.

Creative Planning, he says, is a firm "that [clients] have chosen year in, year out." Now he thinks RIAs should do so, too.

"We are open for business," Mallouk says. **FP**

CREATIVE PLANNING

*__Ann Marsh__ is a senior editor and the West Coast bureau chief of* Financial Planning*. Follow her on Twitter at @Ann_Marsh.*

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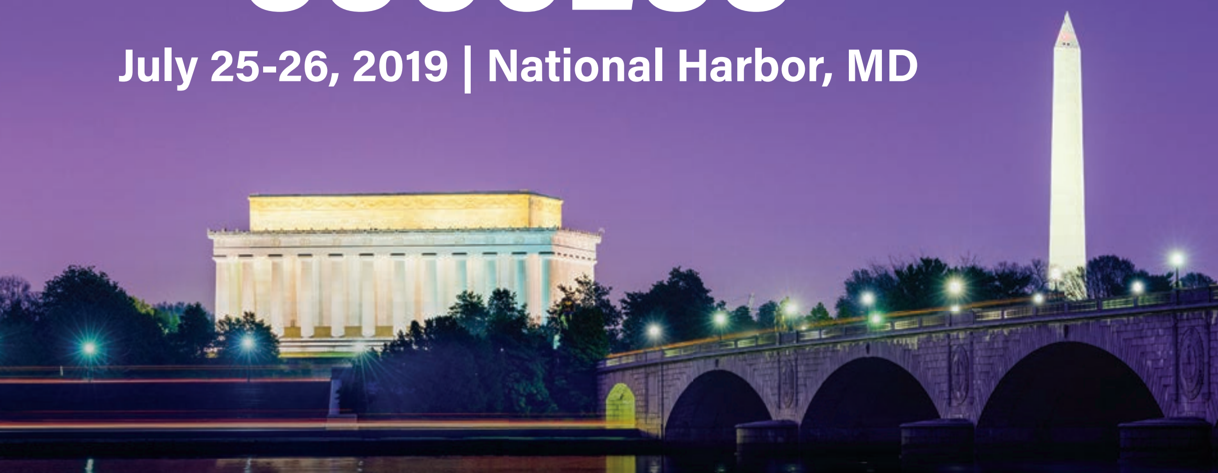

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# THAT WAS THEN

# THIS IS NOW

In a major shift on compensation, RIAs are focusing on firm success rather than individual performance.

By Charles Paikert

**Anne Marie Stonich knew she had to make a change.**

After five years at Brighton Jones, a large Seattle RIA, Stonich and two colleagues at the firm wanted to run a business their own way.

"We felt we could play an even bigger role in our clients' lives, and have more control of our own," she says.

In 2004, Stonich, Josh Harris and EJ Brink founded Paracle, their own RIA in Mercer Island, a suburb of Seattle.

Stonich was thrilled: An avid cyclist, she was able to ride her bike to work from her home in Seattle, cultivate up-and-coming local tech execs from Microsoft and Amazon, and offer them customized financial plans.

At first, the firm's compensation strategy mirrored the industry standard, which was derived from the wirehouse model: After sharing baseline expenses, payout was then tied to how much revenue each partner brought in and managed.

But after about five years, the Paracle partners realized they needed to change their compensation model.

"As we added clients and staff, we realized we did not want to be incentivized to just manage clients

ILLUSTRATION BY THOMAS EHRETSMANN

ourselves," Stonich says. "We wanted to be incentivized to work with the team we were building."

The partners started to pay themselves a salary, and paid Paracle advisors variable compensation based on the amount of revenue they managed. But after another five years, the Paracle partners realized this payout structure wasn't matching their firm-oriented service model.

Individual advisors had been incentivized to take on and serve new clients. But as the firm grew, it shifted to a collaborative model: Every client is now assigned a partner, advisor, associate advisor and administrator.

Salary is based on years of experience, expectations for their role and industry-wide compensation surveys.

Employees now participate in a profit-sharing plan that includes cash payments. Anyone with a Series 65 who introduces a new client to the firm receives 50% of the client's first-year fees. There are also surprise spot bonuses for work the partners consider to exceed the employee's job description, such as making an extra effort to help a client, or improving one of the firm's business operations.

For example, two administrative staffers were given a spot bonus last year for working closely with the architect the firm hired for an office expansion and remodel project. And an advisor was awarded a spot bonus for overseeing the build-out of a new business segment for Paracle.

"It's very much a team-based environment, not a solo one," Stonich says. "It's a big departure from the historical model that most of us were used to."

**"Firm performance is becoming increasingly important as a compensation factor." —Anand Sekhar, Fidelity Investments**

This shift is gathering steam among the industry's most innovative firms, say industry experts. The eat-what-you-kill compensation model prevalent at brokerage firms and some RIAs is being replaced by a more harmonious one-for-all-and-all-for-one approach.

Over three-quarters of advisory firms surveyed by Fidelity's 2018 RIA Benchmarking Study now take firm performance into consideration when determining salary and bonus increases. 2018 was the first year the Fidelity study began to ask questions about how compensation is structured.

"Firm performance is becoming increasingly important as a compensation factor," says Anand Sekhar, vice president of practice management and consulting at Fidelity Investments. "We're seeing a strong alignment between individual accountability and a firm's vision and strategy."

John Furey, an industry consultant who specializes in compensation plans for RIAs, agrees.

Around 10% of RIAs still work off a payout grid model where what you bring in is what you earn, a drop of approximately 5% from five years ago, according to Furey, who is principal of Advisor Growth Strategies in Phoenix.

"While the old model does link professional competence to revenue, it doesn't promote teamwork or client service, and that's what firms are increasingly emphasizing," Furey says.

Indeed, Cable Hill Partners in Portland, Oregon, has developed a compensation plan around building what it calls an "ensemble" firm, says David Christian, a managing director at the firm.

Founded three years ago after Christian, Brian Hefele and Jeffrey Krum left Merrill Lynch, Cable Hill wanted to move away from the previous model of simply rewarding top revenue performers.

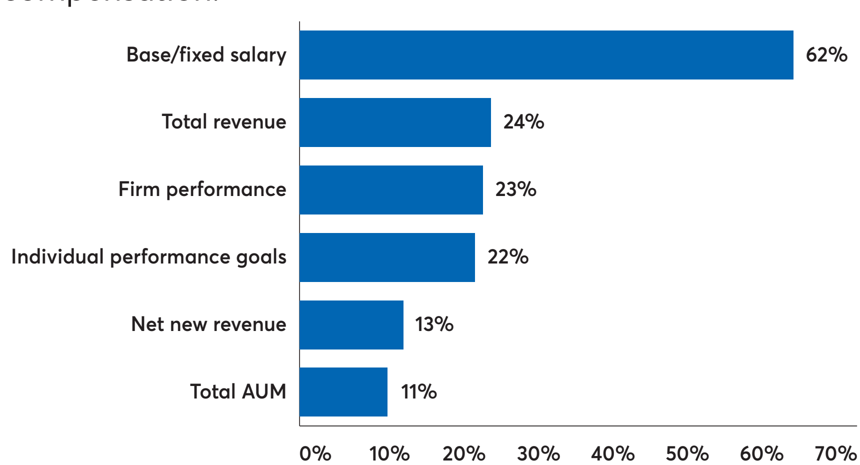
"Our motto was, 'If it reeks like a silo, get rid of it,'" Christian says.

Compensation at Cable Hill is determined by a base salary and bonus that is usually up to 25% of the salary.

A large percentage of that bonus is determined by factors that are emblematic of another industry trend — a move away from basing compensation on hard-number metrics such as percentage of net new assets and

## How Non-Owner Advisors Are Paid

The most popular methods used to determine RIA compensation.




Source: 2018 Fidelity RIA Benchmarking Study increasingly incorporating softer components based on actions such as client outreach.

"Around 70% of our bonus is behavior related," Christian says. "We look at five firm values: collaboration, family, excellence, integrity and education. The other 30% is based on client retention and the employees' professional and technical growth.

"For example," he adds, "how well they learn our planning software, or how well they are able to prepare and present to the client."

Compensation at Cable Hill is built around the client experience, Christian says. Accordingly, staffers are rated from one to five on goals such as engagement, teamwork and successful communication.

"We want clients bonded with the team and not the person," Christian says. "Everybody wins because the more trust clients have in the team, the more growth we see."

**"Bonuses should incent behavior that makes the business better, not just bigger." —Leo Kelly, Verdence**

Another RIA that is moving away from hard metric numbers is Verdence Capital Advisors in suburban Baltimore.

"We don't like tying bonuses to fee numbers," says Leo Kelly, Verdence's CEO. "Bonuses should incent behavior that makes the business better, not just bigger."

Bonuses are determined by ongoing feedback about client satisfaction. And performance regarding contact frequency, quality and execution of tasks is tracked through the CRM technology.

Everyone receives performance reviews, even partners, Kelly says. For example, a director of strategy will be evaluated on performance of their portfolio models, but also design, implementation on ongoing maintenance and monitoring of the portfolios.

Anne Marie Stonich of Paracle rides her bike to and from her Seattle office.

STEPHEN MATERA

## Enhancing Culture

While technical components are easily measured in performance reviews, the most important qualitative factor is, 'Are you enhancing our culture?' according to Kelly.

"If employees can answer yes, then clients, partners and associates' experiences are all enhanced by their work," Kelly says. "Home run!"

At Paracle, each team member assigned to a client household is evaluated on key performance indicators to help determine salary increases, profit participation and bonuses.

When managing client relationships, for example, advisors are expected to retain at least 97% of those relationships and proactively contact all clients at least twice a year, "with little or no agenda," Stonich says.

Advisors are also expected to help build the firm's brand by sourcing two to five new clients each year, and "meet or exceed expectations" for criteria including monthly client referral activities and getting in touch with attorneys, accountants and other influential professionals in the community, Stonich says.

Setting these goals drives "the best service possible," which in turn generates internal growth "that everyone benefits from," according to Stonich.

In Indianapolis, Valeo Financial Advisors has crafted an incentive-only variation on the traditional compensation model.

Advisors hired out of college are given a base salary and work with senior wealth managers servicing clients. But after several years, they are phased into Valeo's unusual payment structure.

## Payout Metrics

All money Valeo pays out is based on two metrics: Advisors are paid 30% of fees generated by a client for life if they service that client, and 30% of every fee dollar if they originated the client's relationship with the firm.

The pot is sweetened because clients are billed on their net worth, not investable assets.

"We found that advisors were tired of salary and bonus," says Gregory Fulk, Valeo's chief operating officer. "They were willing to take a brief step back [in pay] so they can control their income."

Advisors are limited to 40 clients, so senior advisors will transfer servicing clients to junior employees when they reach their limit.

"This model is really like a little annuity," Fulk says. "But it's only as good as the service the client receives, so everyone is incented to do well, and the firm grows as word spreads."

**"Everyone is looking for advisors who can bring over assets and generate new business." —Louis Diamond, Diamond Consultants**

Indeed, being able to retain — and attract — advisors in a market where demand far exceeds supply is making compensation structure more critical than ever for RIAs.

"Talent is the thing [driving compensation]," says Lisa Salvi, vice president, business consulting and education, for Schwab Advisor Services.

"Nearly three-quarters of the firms we surveyed for our RIA Benchmarking study are trying to hire," Salvi says. "They are structuring their incentive compensation to appeal to the available talent pool and to link with the firm's strategic goals."

Salaries for advisors increased 4% in 2017 from the previous year, and bonuses increased 10% for the same period, according to Fidelity's study.

For wealth managers who can close deals with high-net-worth clients, total cash compensation has increased by around 20%, industry consultant Ken Hoffman, president of consultancy for Optima Group, estimates.

## 'A Very Competitive Market'

"It's a very competitive market, and firms are spending to get top talent," Hoffman says. "We've seen guarantees extending up to two years after recruitment for both base salary and bonuses."

RIAs are increasingly targeting relationship managers they can "bond to the firm," versus a lone wolf salesperson who will move on the next best offer, Hoffman says.

But he adds that tying compensation to individual sales and revenue metrics remains a staple strategy for many firms.

"Everyone is looking for advisors who can bring over assets and generate new business," says Louis Diamond, executive vice president for Diamond Consultants. "These advisors are used to a generous payout of the revenue they've generated, and they expect to do much better in negotiating their next compensation package."

In fact, nearly one-quarter of firms surveyed by Fidelity said they used both revenue and individual performance goals as factors when structuring incentive compensation for advisors who were not owners.

## A Continuing Trend

Still, firm performance was cited by a slightly larger percentage of RIAs as a criterion for incentive comp.

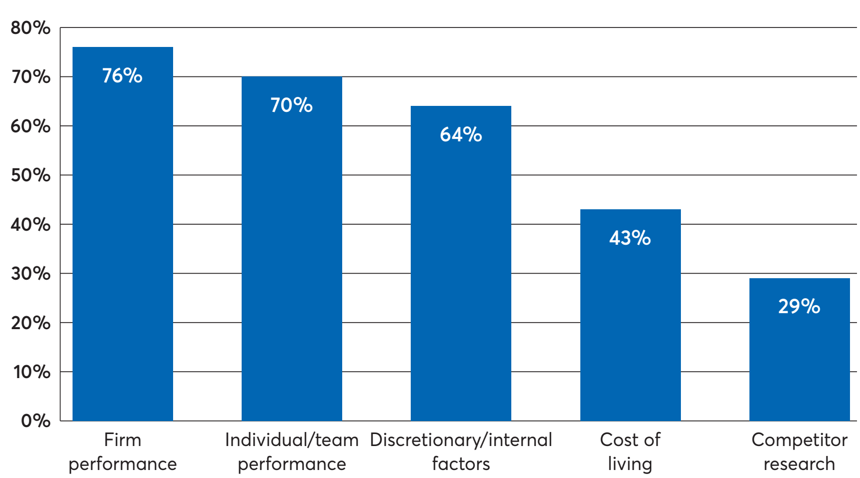
And that trend should continue, says Fidelity's Sekhar.

"Incentive goals that are leading indicators of future performance, such as how many meetings with prospects and clients have been set up, are being increasingly emphasized," Sekhar says. "More firms are thinking about the business looking ahead on the dashboard, not in the rearview mirror." **FP**

Valeo's Gregory Fulk says advisors were tired of the salary and bonus compensation model.

## Want a Raise?

The top five factors RIAs use to determine salary and bonus increases.




Source: 2018 Fidelity RIA Benchmarking Study

**Charles Paikert** *is a senior editor at* Financial Planning. *Follow him on Twitter at @paikert.*

# How Firms Should Pay Bonuses

Bringing on employees can spur growth, but also complicate compensation structures.

By Michael Kitces

Adding your first full-time staff member is often the single hardest hire as an advisor. When you double your head count overnight, it can feel like a big financial step backward. Then, finding mechanisms to reward employees — beyond outright raises and promotions — can be especially fraught.

But the question of what's a proper bonus structure for a paraplanner or other administrative or operational employee is a common challenge for advisory firms both large and small.

There are a couple of fairly common structures. The first structure involves paying a percentage of all new business that comes in after the employee's hire. This approach gets back to our roots as professionals who sold products.

When multiple advisors worked jointly on a client, they would carve up the commission. The rule of thumb that made this work was a clear separation of roles: the finder, the binder, the grinder and the minder. The finder located a prospect and brought them in; the binder made the sale and converted the prospect to a client; the grinder performed all the support work and analysis; and the minder did the service and support work thereafter.

The classic commission split for each role was 25% of compensation. If you were the advisor and someone else provided the lead, they got 25% and you kept the rest. If you worked for an advisor and did the grinding support work, you got 25% of the commission.

While advisory firms are increasingly going to an AUM fee model, old habits die hard. A lot of firms are still engaged in these kinds of new-business splits.

Suppose a firm brings in $10 million in new assets this year and generates $100,000 in new revenue; the client service administrator would get a $10,000 bonus while the paraplanner might get up to $30,000. The percentages here aren't necessarily set in stone, but the fundamental structure presumes that new business is split between the advisor and the support team in a way that recognizes and rewards their various contributions.

## Who Makes What

The median total cash compensation for key RIA positions.

| Position | 2016 | 2018 |
|---|---|---|
| Sr. client account manager/relationship manager | $202,000 | $217,000 |
| Client account manager/relationship manager | $97,000 | $102,000 |
| Client services associate | $57,000 | $60,000 |
| Business development professional | $93,000 | $128,000 |
| Investment/portfolio manager | $155,000 | $166,000 |
| Financial planner | $87,000 | $88,000 |
| Operations director/manager | $95,000 | $96,000 |

Source: 2016 and 2018 Charles Schwab RIA Benchmarking Study

### An AUM Fee

The second approach is based on a percentage of gross revenue. This might be as little as 5%, 2% or even 1% for a very large firm.

If the firm brings in $10 million of new assets, but already has $50 million of existing assets generating $500,000 of ongoing revenue via a 1% AUM fee, the staff member's bonus isn't based on 10% of the $100,000 of new revenue — which would be $10,000 — but rather 2% of the entire $500,000 of revenue, which also nets out at $10,000. Instead of doing a bigger percentage on the new business, it's a smaller percentage based on the practice's entire revenue.

There are a couple of reasons for this approach rather than a percentage of new revenue. First, it recognizes that as the industry shifts from commissions that are paid once upfront, it's important not just to reward getting new clients, but also to retain them.

In the early days of the finder, binder, grinder, minder framework, the only revenue was new revenue. You always had to be getting business or your income would go straight to zero.

In the AUM model, once you achieve a level of critical client mass, you could make a rather amazing income on fees by simply servicing and retaining 50 or so great clients. If you're going to tie bonuses to the success of the business, it's good to reward retention of existing clients as well as winning new ones.

As the practice management consultant Angie Herbers writes, this really aligns the employee's interest much more to the overall interest of the business. If the firm is losing clients, it's bad for bonuses. If the market is up — which in the AUM model is a material factor for firm profitability — the firm does well and employees are consequently getting bonused better.

### Markets as a Buffer

Moreover, if markets are down, the business has a natural buffer because employee compensation will decrease as well. In a bear market, bonuses based on a percentage of a firm's gross revenue naturally trim themselves. That's the benefit when everybody is tied to the one key  firmwide benchmark.

The other reason that firms tend to use percentage of gross revenue is that it is a sensible replacement for profit-based bonuses. Simply put, business owners have too much control over profits to ensure a fair bonusing mechanism. If the owner decides to reinvest for growth, employees see a diminished bonus. And while the owner might make that back in the future, setting employees up to lose at the outset is not a good dynamic.

In addition, advisory firm owners can get creative about business expenses. Anything you can put through the business P&L as a tax write-off — running your car through the business, hiring your kids — becomes a foregone bonus for employees. That is not healthy for your employee relationship.

A big caveat to setting bonuses based on a percentage of revenue, however, is that businesses with recurring revenue can continue growing. While that may sound attractive, it can create serious problems when it comes to bonuses.

A friend took a big leap a few years ago, hiring his first paraplanner when he had about $15 million in assets under management. It was a big financial hit.

Since the hire was a stretch in the first place, my friend decided not to pay what then was the going rate in his area, a $50,000 base salary. Instead, he offered $30,000 and a 20% of new revenue bonus, with the goal of finding $10 million of new assets. That would represent $100,000 in new revenue.

So ideally, the paraplanner would make $50,000 on a $30,000 base and 20% of new revenue. But if the business didn't grow to my friend's expectations, he would save on total compensation. He was managing business risk.

He forgot to consider the ramifications of the opposite outcome. Over the next 10 years, he grew the business off the bottom of the bear market from $15 million to $100 million. So he added $85 million in assets, and almost $850,000 in new revenue, so his paraplanner gets 20% of new business on top of salary. She's now making $200,000 a year.

It's killing his business because he can't hire the staff he needs to grow because there isn't enough money left over. Because the paraplanner has been involved in the business for so long, he's terrified to let her go.

In essence, he's paying partner money to someone who assumes none of the risk that goes with being a partner. And this situation is choking off his ability to grow.

I relate this story because a number of advisory firms — especially ones that have been burned by these percentage-of-revenue bonus models — are shifting to more fixed bonus structures. For instance, the firm might say the bonus is $5,000 for every quarter the firm brings in at least $25,000 in new revenue.

Do the math, and the firm is going to pay 20% of new revenue as a bonus, but the employee doesn't hear, "You get 20% of our growth this quarter and every quarter forever." Rather they hear, "You get $5,000 if we hit our goals."

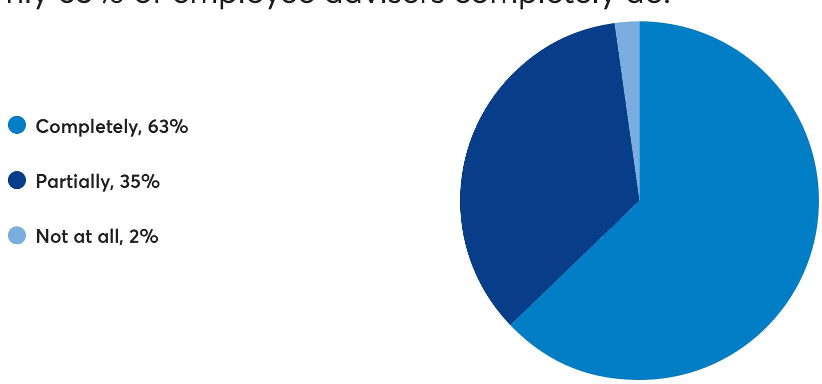
That's important because it means next year you can reset the $5,000 bonus to whatever the new goals become: "This year we're hiring a new team member to support our marketing, and the $5,000 bonus now comes when we hit a $40,000 new revenue target each quarter."

In this case, the percentage of the bonus starts going down as the business grows and compounds. That's nothing nefarious, just a simple recognition that as the business grows, there are more employees who must participate in the bonus structure.

You have to change the percentages or you get stuck in my friend's situation, where one successful employee claims money that could be used to hire more people. By setting flat dollar amounts based on concrete metrics, you can budget as a percentage of revenue, but you don't create an expectation in the minds of employees that you can't sustain. Instead, bonuses are dollar amounts for hitting goals, which

## Do you understand your firm's compensation?

Only 63% of employee advisers completely do.

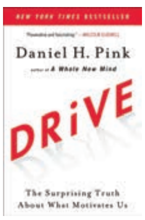



Source: J.D. Power, 2017

implicitly recognizes that the goals of the business can and will change over time. That makes the bonus structure more responsive to the needs of the business and avoids the compounding-risk problem.

## Alternative Incentives

It's worth noting other incentive strategies out there. The bonus might not take the form of a bonus at all.




Daniel H. Pink's book "Drive," which is all about the factors that set us in motion toward goals, argues there are two types of motivators that drive us: intrinsic motivation, where we're self-motivated by the good feelings from what we accomplish; and extrinsic motivation, where we're externally motivated by things like money or recognition. Bonuses are a classic example of extrinsic motivation.

And while extrinsic motivators can give us a helpful nudge, we soon adjust and come to expect them. So even if employees previously enjoyed doing tasks that were rewarded with a bonus, take the financial incentive away and suddenly the tasks themselves are less enjoyable. In essence, you've turned an intrinsic motivator into an extrinsic one.

Pink's research found that for tasks requiring creativity and original thought — such as handling complex planning situations in an advisory firm — intrinsic motivators work best. But if you use conditional bonuses — "If we reach this goal, you get that bonus" — intrinsic motivation can be undermined in the long run and turn what would have been a natural desire to do well into a money issue.

The natural extension of that idea is to pay employees enough in base salary that it addresses their core needs. As Pink argues, big bonuses that may seem motivating in the short term can undermine employee motivation in the long run. So if you're going to have a bonus structure, you might opt to do something experiential that everyone on the team can enjoy without actually making it about the money.

**Problematic bonus structures are much harder to fix later than they are to structure properly in the first place.**

Sometimes, entrepreneurs and business owners forget that their motivations differ from those of their employees. Many owners need financial motivators. They respond well to them.

But that's not true for every employee. If they wanted risk-based compensation, they could work in sales or something else with a high-risk, high-reward profile. Instead, they're coming to the table as employees.

This disconnect can lead business owners to place excessive focus on the bonus. Owners should be careful not to project their own desires on their staff, when what the employee may want is a stable salary at a stable job, without participating in the risk-taking inherent in being the business owner.

Obviously, some employees may be interested in more upside potential, even with additional risk. Give them a path to get there that's not the equivalent of phantom equity revenue sharing, where they ride the wave you're surfing as the owner. Instead, give them the opportunities to have a greater impact on the business and reward them for actually taking on more responsibility and feeding off of it. That rewards them for helping to create business value rather than compounding their bonuses for the sake of doing the job they have always done.

The bottom line is that problematic bonus structures are much harder to fix later than they are to structure properly in the first place. It's much easier to set a sensible bonus structure before a firm scales than to institute a percentage of revenue schedule and try to change it when employees are seeing the upside.

## Foregoing Bonuses

Alternatively, if you're already paying a healthy starting salary to a paraplanner, consider foregoing the bonus altogether and instead tying the accomplishment of your quarterly or annual business goals to something maybe a little more fun, like a group outing with employees' families to the amusement park.

Taking it a step further, consider allocating money you would have set aside for bonuses into an emergency fund for your business.

You could even tell employees you're building business reserves to ensure that they continue to have a job. When it's framed that way, you may be surprised at how much they appreciate the gesture. At worst, if it turns out that you're in a predicament like my friend, and your employee wants more upside, you have a few years to figure out how to deliver it — not by trying to give them a compounding bonus tied to business growth, but by developing them into a full-scale service advisor who manages relationships or a lead advisor who develops business. Who knows? They may even become your future business partner. Then, both of you may share in building a bigger pie than you might have been able to make on your own. **FP**

***Michael Kitces,*** *CFP, a* Financial Planning *contributing writer, is a partner and director of wealth management at* Pinnacle Advisory Group *in Columbia, Maryland; co-founder of the* XY Planning Network*; and publisher of the* planning blog Nerd's Eye View. *Follow him on Twitter at @MichaelKitces.*

One firm leveraged a client's leisure pursuit by hosting an event that enabled other clients and prospects to enjoy his collection of automobiles.

ADOBE STOCK

# Prospecting for 24-Karat Clients

Top firms explain how they appeal to top prospects — and to elite advisors.

**By Ann Marsh**

At first, nobody at Cresset Capital Management was particularly eager to play a game using "fuzzy balls" from a local crafts store to prospect for high-net-worth clients.

But, at the insistence of the leaders of the Chicago-based firm, the Cresset client services team hit the phones for three solid hours.

One fuzzy ball went into a jar for every call completed, three for each conversation held and five for every meeting scheduled.

"Not to make a pun, but it was a ball and we had pizza and beer afterward," one of the partners, Doug Regan, related to the attendees of the *Financial Planning* webinar "Growing Your High-Net-Worth Business."

What's more, in the final tally, the game netted two new clients for the firm, Regan said.

**"The best advisors should stop trying to sell that they are smarter than everyone else," says Larry Miles of AdvicePeriod.**

He added a moral to the story: "Make time to prospect is the bottom line here."

Obviously, there's no single formula deployed by the best planning firms to attract wealthy clients, leaders of three top firms explained, but they've all found their own ways.

The experts who participated in the webinar included Regan, co-chairman and founding partner of Cresset; Larry Miles, a principal at AdvicePeriod in Los Angeles; and Jack Petersen, managing partner of New York City-based Summit Trail Advisors, a Dynasty Financial Partners firm.

## Turning From Asset Management

When talking with prospects, the advisors at AdvicePeriod have turned their focus away from asset management, Miles says.

He finds clients still overvalue the service, despite industrywide commoditization that has reduced the value that advisors can actually add.

As a result, Miles expressed surprise

to find most webinar respondents chose tax and estate planning as the service of greatest interest to their clients — over asset management and philanthropic planning — during live polling of attendees.

Of the three options, that was a good choice, he indicated.

"Our belief is that the best advisors should stop trying to sell that they are smarter than everyone else," he said.

Most firms are already using similar, if not the same, investment managers, Miles said.

"That's not really moving the needle for clients," he added.

### A Better Focus

Philanthropy and estate planning is the main focus at AdvicePeriod, Miles said.

"When we are talking to our clients about financial and estate planning, we are talking about things that are incredibly valuable to them," Miles explained. "It's about their families, their children, about how they want to be remembered."

Most estate planning attorneys, he maintained, are, at best, reactive and not proactive.

After setting up a grantor retained annuity trust, for example, many attorneys are unlikely to pay attention to how the assets inside of it have performed and deliver follow-up advice for clients, he said.

"We've grown precisely because of the missed opportunities" like these, he said.

Paying attention to such details allows AdvicePeriod to demonstrate a level of service that not only attracts but also retains clients.

### A Firm's Partnership Culture

Summit Trail brings in new clients in part thanks to the firm's partnership culture that makes it an attractive place for new like-minded advisors to join and bringing in new business with them, Petersen says.

To that end, the advisors in the firm all have equity, he said, which helps to cultivate loyalty.

And there are few of the industry's more obvious barriers to leaving. "We don't have a non-solicitation [or] non-compete" agreements, Petersen says. "We don't believe in them. If you cannot help an advisor build their business … you're not going to be likely to retain them. We have a pretty open border here."

At Cresset, advisors don't just rely on games to attract clients.

The firm's very structure also helps, Regan says, given that it was founded by the private equity entrepreneurs Eric Becker and Avy Stein.

"Most clients, when they get upset, fire the firm, and they go somewhere else," he said. "Private equity clients fire the firm and start their own."

**At Summit Trail, all of the advisors have equity, which cultivates loyality, says managing partner Jack Petersen.**

Frustrated by opacity, lack of transparency, conflicts of interest and difficulty in contacting their previous advisors, Becker and Stein decided to launch Cresset. The firm started managing money in August of 2017, according to Regan.

"Now we have about $3 billion" in assets under management, he says.

Thanks to their backgrounds, the firm founders were able to introduce the firm to a whole pool of private equity investor prospects.

"We rely heavily on our own internal network," Regan says.

To that end, Cresset has been leveraging its clients' interests in unusual ways.

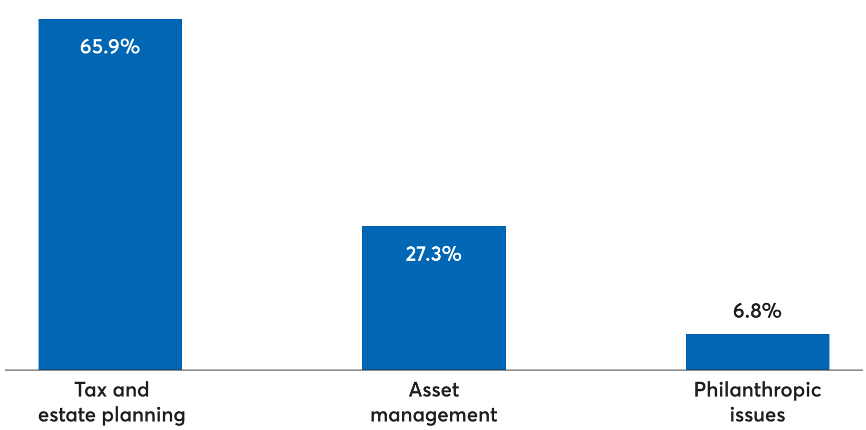
For example, one client who is passionate about cars opened up his garages for a gathering of Cresset's existing clients and prospects.

The firm is now talking with another client who has a presidential autograph collection about doing something similar.

"It creates an opportunity for us to have dialogues outside of commercial transactions," Regan says, demonstrating that planning is about "more than money." **FP**

*__Ann Marsh__ is a senior editor and the West Coast bureau chief of* Financial Planning. *Follow her on Twitter at @Ann_Marsh.*

## In What Services Are High-Net-Worth Clients Most Interested?




Source: SourceMedia webinar "Growing Your HNW Business"

# The Best Wealth Management Fintechs to Work For

Making work enjoyable helps these companies attract employees.

By Jessica Mathews and Sean Allocca

From mountain climbing to paid sabbaticals, fintech firms offer a variety of unique perks to employees. What's at stake? Attracting — and retaining — top talent.

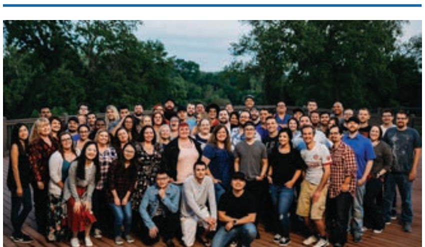
"We're in the business of making advisors' lives easier and creating raving fans for our solutions," says Brian McLaughlin, CEO of Redtail Technologies. "At the same time, we want our employees to be raving fans of their company and their co-workers."

Perks offered by these nine companies serving the wealth management industry have earned them a spot on SourceMedia's annual Best Fintechs to Work For ranking. The companies reported retention between 84% and 100% in each of their last fiscal year.

Employee totals are for U.S. staff only; some firms may have higher overall headcounts. Companies on the list provide tech products that foster the delivery of financial services. **FP**

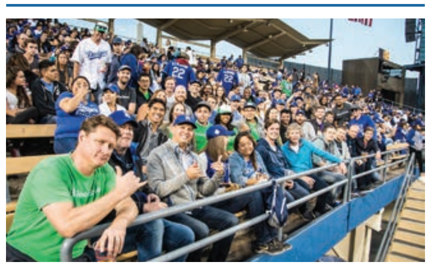
## 1. YCharts

**Location:** Chicago
**Employees:** 45
**President and CEO:** Sean Brown
**Business:** Financial data research platform
**Popular with employees:** Employees can enjoy kombucha, beer and cold brew on tap, as well as free lunches every Friday.
**Employee recognition/appreciation program:** YCharts presents a monthly They Get It award for employees who have mastered their own jobs and help colleagues do theirs. The winner receives a gift card.



## 2. Redtail Technology

**Location:** Sacramento, California
**Employees:** 95
**CEO:** Brian McLaughlin
**Business:** Software for wealth management CRM
**Activity to relieve stress/promote fun:** The office includes fun amenities, such as an indoor office slide, game room, basketball court, lawn games and comfortable lounge spaces.
**Community service initiative:** Redtail partners with the Front Street Animal Shelter to provide dog fostering opportunities for its employees. The company provides a bed, food and toys for employees when they take the pup home with them overnight.



## 3. PeerStreet

**Location:** El Segundo, California
**Employees:** 146
**CEO:** Brew Johnson
**Business:** Alternative investing platform
**Popular with employees:** At the end of the month, when deadlines require people to stay late, the company provides lunches for all its employees, as well as caters family-style dinners all week.
**Employee recognition/appreciation program:** When a team has a strong month, their supervisor organizes a group outing to celebrate their efforts, such as go-kart racing or playing volleyball on the beach.

## 4. Snappy Kraken

**Location:** Ormond Beach, Florida
**Employees:** 18
**CEO:** Robert Sofia
**Business:** Digital marketing for financial services
**Popular with employees:** All of Snappy Kraken's employees work remotely, which gives everyone on the team flexibility when it comes to their hours, work

environment and choice of residence.
**Employee recognition/appreciation program:** After three years at the company, employees may be eligible for a paid one-month sabbatical. Since the company is just turning three years old, employees will begin to qualify for the time off at the end of this year.

## 5. Advyzon

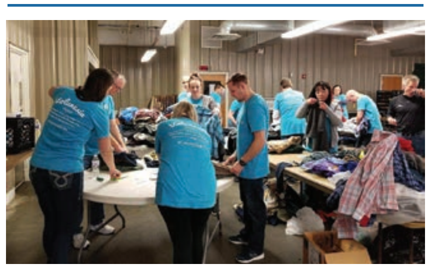
**Location:** Chicago
**Employees:** 21
**CEO:** Hailin Li
**Business:** Software for wealth management CRM
**Activity to relieve stress/promote fun:** Advyzon hosts semiannual outings for its employees. This summer the company rented a corporate suite at a racetrack near Chicago and took employees out to dinner after the event.
**Employee recognition/appreciation program:** Employees can receive additional pay as well as stock options for exceptional work, which is determined through client feedback, internal survey results and client retention rates.

## 6. MyVest

**Location:** San Francisco
**Employees:** 94
**CEO:** Anton Honikman
**Business:** Tax-focused wealth management platform provider
**Activity to relieve stress/promote fun:** MyVest sponsors friendly competitions between employees including pingpong tournaments, trivia night, a hackathon and NCAA brackets.
**Family-friendly benefit/practice:** The firm offers unlimited paid time off for full-time employees and lets employees work remotely.


## 7. TradePMR

**Location:** Gainesville, Florida
**Employees:** 73
**President and CEO:** Robb Baldwin
**Business:** Brokerage and custodian technology provider
**Activity to relieve stress/promote fun:** Every month there are free activities for employees. In March, staffers could sign up for cooking classes.
**Fitness/wellness program:** TradePMR hosts an annual wellness fair that includes free blood work, chiropractic adjustments, massages and information on healthy eating.



## 8. Carson Group

**Location:** Omaha, Nebraska
**Employees:** 176
**CEO:** Ron Carson
**Business:** Wealth management firm, platform provider
**Fitness/wellness program:** Carson Group hosts semiannual fitness challenges. This has included a hike up Mount Shasta, a 14,000-foot peak in Northern California, and a Spartan Race, which is an obstacle course that spans several miles.
**Employee recognition/appreciation program:** Carson Group sponsors a bring-your-dog-to-work day, which features dog bandannas, treats and lunch. The firm also organizes a presentation from a local rescue or animal shelter.

## 9. Oranj

**Location:** Chicago
**Employees:** 41
**CEO:** David Lyon
**Business:** Wealth management software provider
**Activity to relieve stress/promote fun:** Oranj buys VIP tickets for all employees to spend one day at the music event Lollapalooza.
**Communication tool/practice:** Employees can ask tough questions, share ideas and discuss overall strategy during the company's quarterly town hall meetings. **FP**

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An IRS ruling makes clear that Section 457 plans don't have to allow everything that's permitted under the tax law.

BLOOMBERG NEWS

# Legal, but Unavailable

Some retirement plans may decline to offer delayed RMDs, loans, hardship distributions and other lawful maneuvers.

**By Ed Slott**

The IRS recently released a letter from a taxpayer who had suffered damages to his property during Hurricane Irma. He had sought disaster relief, which under the law allowed him to make a withdrawal under favorable tax provisions from his Section 457 plan to make repairs on his home. Although this relief was clearly permitted under the law, his company plan refused.

IRS responded: "A Section 457 plan is not required to make special distributions on account of Hurricane Irma, and even if it does, the plan may impose conditions on obtaining a distribution."

Huh? It may sound like a mistake, but the IRS was right. Company plans don't have to allow everything that's permitted under the tax law. The man was out of luck.

It is worth noting that this seemingly perverse result is not limited to Section 457 plans. Clients may suffer disappointment in seeking to make use of provisions that are legally available to participants in other tax-deferred retirement plans as well, including 401(k)s and 403(b)s.

We often tell clients about planning opportunities available to retirement plans. But just because the law allows these maneuvers doesn't mean that their company plans will. The retirement tax rules are one area of tax law where the law is more liberal than what is sometimes actually offered by 401(k)s and other company plans.

Financial advisors should be familiar with planning strategies that are optional for company plans before they assure their clients that the strategy is available.

The list may surprise you:

## Required Beginning Date

The tax code allows individuals to delay the first year's RMD until April 1 of the year after they turn age 70½. That means if they turned 70½ in 2018, the first RMD isn't actually due until April 1, 2019. Subsequent RMDs must be issued before Dec. 31.

However, plans are not required to give participants the ability to delay that initial RMD. In fact, many plans do not and simply process all RMDs before Dec. 31, to ease administration and to remove the fear that an initial RMD will not be processed before the April 1 deadline.

## 'Still Working' Exception

Unbelievably, plans do not have to offer the popular "still working" exception to the RMD start date rules.

Thankfully, there is some relief. First, the exception is widely used and is considered the norm. Second, the exception is actually the default rule under the tax code. Finally, under IRS guidance, RMDs that are issued while a person is still working for the company sponsoring the plan can be rolled over to an IRA, because such distributions are technically not an RMD.

**Advisors should be familiar with planning strategies that are optional for company plans before they assure their clients that the strategy is available.**

Most advisors are unaware of this last point since it is set forth in IRS Notice 97-75, A-10(c), which was issued in 1997 to clarify new rules added by the Small Business Jobs Protection Act of 1996.

That act added the still-working exception and made it the default rule. In Notice 97-75, the IRS ruled that if a plan did not adopt the exception and continued to force distributions at age 70½ for participants who are still working, those distributions are not required under the tax code.

That means these distributions can be rolled over and will not trigger the 6% excess contribution penalty. However, the ability to defer taxes would last for only one year since the still-working exception does not apply to IRAs.

Once the individual finally retires, the normal rules apply to any subsequent RMDs.

## Stretch Distributions

Plans do not have to offer the stretch distribution option to any beneficiaries under the plan, including the worker. However, most plans do offer the stretch to at least the employee and a spouse beneficiary.

Quite often, this treatment is not extended to nonspouse beneficiaries. This means that they would be forced to completely empty the account in five years.

In such a scenario, the beneficiary should roll over the plan money into a properly titled, inherited IRA, thereby allowing him or her to stretch distributions over their life expectancy.

## Designated Roth Accounts

Roth accounts are after-tax accounts that can be offered by 401(k), 403(b) and 457(b) plans, but companies do not have to offer these.

Just as with the pretax component of the plan, Roth contributions are elected at open enrollment and are then deposited into the plan when earned. However, the Roth plan could allow what's called an in-plan rollover or in-plan conversion. This is a taxable transfer of pretax monies to a Roth account within the plan.

If offered, the participant does not have to be eligible for a distribution of pretax funds to take advantage of the option. In addition, while the in-plan rollover is taxable and reportable (on Form 1099-R), it does not trigger the early distribution penalty or withholding requirements.

## Hardship Distributions

Plans are not required to offer hardship distributions, including any of the new disaster relief provisions passed by Congress. However, if the plan does offer hardship distributions, the disaster relief provisions themselves are optional — at least for now.

Just recently, the IRS released new proposed hardship regulations that added a new distribution category and further liberalized some of the rules.

The new distribution category is for expenses and losses incurred by an employee due to damage suffered to his or her home or place of employment because of to a federally declared disaster. Plans can impose the new rule retroactively to Jan. 1, 2018.

This would cover disasters that occurred later in 2018, like Hurricanes Michael and Florence.

However, plans are not required to apply the new rules retroactively.

Since the passage of the Pension Protection Act of 2006, Congress and the IRS have slowly loosened some of the onerous and unnecessary restrictions on hardship distributions.

One of those restrictions required plans to suspend salary contributions for six months after a hardship distribution. The new proposed regulations eliminate this requirement beginning the first day of the plan year after Dec. 31, 2018 (that is, Jan. 1, 2019, for calendar plans).

However, plans have a choice: they can quit applying the provision for all outstanding hardship distributions, or they can apply it only for distributions made after the effective date.

## Plan Loans

Just like hardship distributions, plan loans are themselves optional, and so are some of the additional features allowed under the tax code.

For example, plans can restrict participants to one outstanding loan or allow multiple loans to be taken out.

However, unlike the new additions to the hardship rules, plans that offer loans are required to apply the new disaster relief provisions that were passed for the victims of 2017 California wildfires and Hurricanes Harvey, Irma and Maria.

These include an increase in the loan limit from \$50,000 to \$100,000 (or 100% of the vested benefit, whichever is less) and the one-year delay in repayment. These new provisions apply only to loans that were issued on or before Dec. 31, 2018.

## In-Service Distributions

While elective deferrals of salary contributions) cannot be distributed until age 59½, death, disability or termination of service, other types of contributions have different rules. For example, contributions that were rolled over from another plan can be distributed at any time — if the plan allows.

**Retirement tax rules are one area where the law is more liberal than what may be offered by 401(k)s and other company plans.**

On the other hand, the plan could subject all contributions, including rollover money and after-tax contributions, to the salary contribution time line discussed above.

Therefore, it's vital that workers understand a plan's distribution rules for rollover contributions before making the election.

Consider this example: Jamie begins working for a new company and is immediately eligible to participate in its 401(k) plan.

Jamie has a 401(k) account from her previous employer and is thinking about rolling the funds into the new company's plan. But the new plan does not allow in-service distributions of rollover funds received from another plan.

Therefore, Jamie would be better served by rolling the 401(k) funds to an IRA, thereby continuing tax deferral on the funds while ensuring access to distributions, albeit subject to taxes and penalties. If the money were rolled to the new plan, her access would be severely restricted. Unless the plan allowed loans or hardship distributions, she wouldn't be able to touch the funds until age 59½, death, disability or termination of service.

## Rollovers Into the Plan

Speaking of rollovers, plans have the option to limit the types of funds that can be rolled into the plan. This includes prohibiting pretax IRA money from being rolled over.

Why would clients want to roll IRA money into a qualified plan?

There are many reasons. They could be looking for the additional creditor protection under ERISA.

Older workers may want to avoid RMDs from their IRA by rolling the funds into a qualified plan of their current employer, thereby taking advantage of the still-working exception if the company plan allows that.

Finally, individuals looking to convert nondeductible IRA contributions to a Roth IRA may want to roll the pretax IRA money into a qualified plan to isolate the after-tax IRA funds so they can be withdrawn or converted to Roth IRAs tax free.

However, all these options are unavailable if the plan excludes rollovers from IRAs.

## Direct Tollovers Out of the Plan

Staying with the rollover theme, the tax code does not limit the number of direct rollovers that can occur in a single transaction. In theory, a taxpayer could directly roll a distribution over to five, 10 or even 20 different tax-deferred accounts.

However, plans can limit the number of direct transfers. Some may allow only one direct rollover per transaction. This becomes vital if the account has both pretax and after-tax contributions. The withholding rules apply only to pretax amounts that are not directly rolled over. Money that's withheld is considered taxable and subject to the 10% early distribution penalty.

Advisors should look to see which of these common options the clients' company plans allow before providing advice on these issues. **FP**

# Checklist for Advisors

**Do you know if your clients' company retirement plans allow these options? (They don't have to.)**

- ☑ A required beginning date extension
- ☑ A "still working" exception
- ☑ Stretch distributions
- ☑ Designated Roth accounts
- ☑ Hardship distributions
- ☑ Plan loans
- ☑ In-service distributions
- ☑ Rollovers into the plan
- ☑ Direct rollovers out of the plan

***Ed Slott,*** *a CPA in Rockville Centre, New York, is a* Financial Planning *contributing writer and an IRA distribution expert, professional speaker and author of several books on IRAs. Follow him on Twitter at @theslottreport.*

The Yale Endowment Fund model offers some investment guidance for advisors and clients.

BLOOMBERG NEWS

# Free Lessons From Yale

## A historical look at a portfolio that minimizes the magnitude of losses while maintaining an equitylike total return.

**By Craig L. Israelsen**

When calming clients amid vertiginous spikes and plummets in the stock market, it's all about accentuating the upside.

One way to help clients feel more at ease is to present cold, hard evidence for why they should stick to their overall investing strategy through all financial market cycles, including the storms.

To help you start those conversations, I've taken an in-depth look at the long-term performance of the Yale Endowment Fund, managed by David Swensen.

This fund is a stout performance benchmark for pension managers, endowment fund managers and investment managers. For context, I'll compare its performance against a multi-asset portfolio I've designed, called the 7Twelve Portfolio, along with SPDR S&P 500 ETF (SPY), which mimics the S&P 500.

Such a comparison is particularly timely after the late 2018 stock market downturn that may have rattled clients.

Downside volatility often leads to rash demands from clients to sell their investments, as emotion takes over.

It's hard, when the financial markets are tanking, to focus on the likely results of an investment strategy 10 to 20 years down the road. That's why an analysis like the one to follow is so important.

If such foresight were common, clients would better weather the storms so they could reap the benefits years later.

Why did I select these particular funds?

While not publicly available, the Yale Endowment is a stellar investment fund, and there are good lessons to be learned from its asset allocation philosophy.

**Help clients by presenting evidence for why they should stick to their investment strategy through ups and downs.**

The 7Twelve Portfolio is a model I designed that can be built using publicly available mutual funds and/or ETFs that are available to everyone. The SPY ETF is available to everyone.

The Yale Endowment Fund is a broadly diversified portfolio. For the fiscal year ending June 30, 2018, it had the following asset allocation targets: absolute return, 26%; venture capital,18%; foreign equity, 15.5%; leveraged buyouts, 15%; real estate, 9.5%; bonds and cash, 6.5%; natural resources, 6.5%; and domestic equity, 3%.

It's hard to miss the meager 3% allocation to domestic equity. Clearly, Swensen is not bullish on U.S. equity at present. By comparison, the multi-asset 7Twelve portfolio model allocates 25% to U.S. equity (equally divided among large-cap, mid-cap and small-cap), 16.6% to non-U.S. equity (divided among developed and emerging markets), 8.3% to real estate, 8.3% to natural resources, 8.3% to commodities, 16.6% to U.S. bonds (aggregate and TIPS), 8.3% to non-US bonds and 8.3% to cash.

For this analysis, the 7Twelve portfolio's performance over this time period was calculated using 12 underlying ETFs from various providers.

## Winning the Long Game

Over 20 years, the Yale Fund saw the fewest losses.

| Each 12-Month Period Ends June 30 | Yale Endowment Fund | ETF-based 7Twelve Portfolio | SPDR S&P 500 (SPY) |
|---|---|---|---|
| July 1998 – June 1999 | 12.20 | 9.30 | 22.76 |
| July 1999 – June 2000 | 41.00 | 11.21 | 7.25 |
| July 2000 – June 2001 | 9.20 | -0.24 | -14.83 |
| July 2001 – June 2002 | 0.70 | 2.04 | -17.99 |
| July 2002 – June 2003 | 8.80 | 5.25 | 0.25 |
| July 2003 – June 2004 | 19.40 | 20.79 | 19.11 |
| July 2004 – June 2005 | 22.30 | 17.60 | 6.32 |
| July 2005 – June 2006 | 22.90 | 14.18 | 8.63 |
| July 2006 – June 2007 | 28.00 | 14.71 | 20.59 |
| July 2007 – June 2008 | 4.50 | 5.86 | -13.12 |
| July 2008 – June 2009 | -24.60 | -22.45 | -26.21 |
| July 2009 – June 2010 | 8.90 | 14.62 | 14.43 |
| July 2010 – June 2011 | 21.90 | 24.70 | 30.69 |
| July 2011 – June 2012 | 4.70 | -1.87 | 5.45 |
| July 2012 – June 2013 | 12.50 | 8.01 | 20.60 |
| July 2013 – June 2014 | 20.20 | 14.42 | 24.61 |
| July 2014 – June 2015 | 11.50 | -3.88 | 7.42 |
| July 2015 – June 2016 | 3.40 | 0.65 | 3.99 |
| July 2016 – June 2017 | 11.30 | 8.42 | 17.82 |
| July 2017 – June 2018 | 12.30 | 6.47 | 14.25 |
| Annualized Performance for Periods Ending on June 30 | | | |
| 3-Year (2015-2018) | 8.93 | 5.13 | 11.87 |
| 5-Year (2013-2018) | 11.61 | 5.03 | 13.38 |
| 10-Year (2008-2018) | 7.40 | 4.15 | 10.15 |
| 20-Year (1998-2018) | 11.78 | 6.97 | 6.45 |
| 20-Year Standard Deviation of Return | 13.0 | 10.4 | 15.4 |
| Growth of $10,000 Over 20 Years | 92,785 | 38,505 | 34,939 |

Source: Steele Mutual Fund Expert, analysis by author

The performance of each portfolio (Yale, 7Twelve and SPY) was measured over fiscal years that ended on June 30. This is atypical but was necessary, because that is how the performance of the Yale Endowment Fund is reported. Thus, the first investment period was from July 1, 1998, through June 30, 1999. The last investment period was July 1, 2017, through June 30, 2018.

As shown in the accompanying chart, the Yale Endowment Fund turned an initial $10,000 investment on July 1, 1998, into $92,785 over the course of 20 years.

**Another advantage of building a broadly diversified portfolio that utilizes multiple (and different) asset classes is reduced volatility of returns.**

That translates to an annualized return of 11.78%.

The 7Twelve Portfolio, which utilized 12 ETFs in this particular analysis, produced an ending balance of $38,505, which equates to an annualized 20-year return of 6.97%. SPY ended with $34,939, which represents an annualized return of 6.45%.

To put those performance figures into perspective, there were 4,243 mutual funds in existence over this same 20-year time frame.

A total of 2,372 funds remained after culling out the bond funds and money market funds (which are not representative of the funds in this study).

Of those 2,372 funds, only 46 produced a 20-year annualized return higher than the 11.78% return of the Yale Endowment Fund. The average return of all 2,372 funds was 6.72% (and the median return was 6.49%).

You will notice in the table that SPY has dominated the other investments over the recent past (three, five and 10 years). Less-diversified investments, such as the S&P 500, have the potential to materially outperform broadly diversified models (such as Yale and 7Twelve) when that particular asset class (in this case, large-cap U.S. equity) is on a roll.

But when things head south for that particular asset class, things can get ugly. Notice the four large losses experienced by the S&P 500 during this 20-year period. Each loss was over 13%. The 7Twelve Portfolio also had four losses, but three of those losses were smaller than 3.9%.

The Yale Endowment had only one 12-month loss — during the meltdown of 2008-2009.

Another advantage of building a broadly diversified portfolio that utilizes multiple (and different) asset classes is reduced volatility of returns.

Volatility is often measured using standard deviation — a lower standard deviation indicates less volatility.

And less volatility is better than more volatility—generally speaking.

### Cost of Volatility

This is where it gets interesting.

You will notice that the 20-year standard deviation of return for the Yale Endowment is 13%, which is the second-highest level among the three investments in this analysis.

**A lower standard deviation indicates less volatility. And less volatility is better than more volatility—generally speaking.**

Thus, at first blush, it would appear that the Yale Endowment has great performance, but at the cost of higher volatility. That is technically true, but we must remember that there is upside volatility and downside volatility.

It is downside volatility that tends to bother clients.

There is one particular upside year in which the Yale Endowment handily outperformed the two other investments — and that was from July 1999 to June 2000.


BLOOMBERG NEWS

The Yale Endowment had a return of 41%, compared with 11.21% for 7Twelve, and 7.25% for SPY.

If we remove the huge upside return for that particular 12-month period, the 20-year standard deviation for Yale drops to 11.5%, or not much higher than the 10.4% standard deviation for the 7Twelve model.

The 20-year standard deviation of returns for SPY is clearly higher than Yale and 7Twelve — which is not surprising, given its 100% allocation to U.S. equity.

### Upside Performance

Remember those 46 funds that outperformed the Yale Endowment over the past 20 years?

The average 20-year standard deviation among those 46 funds was 26% — or exactly twice as high as the Yale Fund.

Was it upside volatility among those 46 funds?

Nope. On average, those 46 funds had **five** negative 12-month returns during this 20-year period.

Yale had one. So, those 46 funds had a higher performance than Yale, but with more **downside** volatility.

Bottom line: The cause of Yale's higher standard deviation is frequent and impressive upside performance, and that is hardly something to be upset with.

In other words, we should all want portfolios that have higher levels of **upside** volatility. **FP**

**Craig L. Israelsen, Ph.D.,** *a* Financial Planning *contributing writer in Springville, Utah, is an executive in residence in the personal financial planning program at the Woodbury School of Business at Utah Valley University. He is also the developer of the 7Twelve portfolio.*

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# CE Quiz

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**From: Free Lessons From Yale**

**1.** Over 20 years (from 1998 to 2018), what was the growth of a $10,000 investment in a portfolio based on the current Yale Endowment Fund model (absolute return, 26%; venture capital,18%; foreign equity, 15.5%; leveraged buyouts, 15%; real estate, 9.5%; bonds and cash, 6.5%; natural resources, 6.5%; and domestic equity, 3.0%)?
1. $92,785
2. $55,453
3. $35,572
4. $47,226

**2.** During the same time period, what was the growth of a $10,000 investment in the S&P 500?
1. $90,400
2. $52,325
3. $34,939
4. $22,775

**From: Legal, but Unavailable**

**3.** According to the U.S. tax code, if a client turned 70½ in 2018, when was the first required minimum distribution from their 401(k) due?
1. Dec. 31, 2018
2. Jan. 31, 2019
3. April 1, 2019
4. March 31, 2019

**4.** If an employer in 2019 offers a hardship distribution for expenses and losses incurred by an employee due to damage suffered to his or her home after a federally declared disaster, how far back can plans retroactively impose the rule?
1. June 30, 2018
2. Jan. 1, 2018
3. July 30, 2018
4. May 1, 2018

**From: Record Annuity Sales Display Changing Product Mix (online only)**

**5.** How much did fixed annuity sales grow from 2017 to 2018?
1. $27 billion
2. $15 billion
3. $2 billion
4. $35 billion

**From: At Tax Time, Residency Does Not Equal Domicile (online only)**

**6.** In which of these states does the Homestead Exemption protect only up to $250,000 of a home's value from the reach of creditors?
1. Florida
2. Texas
3. Nevada
4. Montana

**7.** In which of these states would a person be considered a resident if they spend more than nine months there in any one year?
1. Illinois
2. New York
3. California
4. New Jersey

**From: Small-Cap Funds With the Worst 1-Year Returns (online only)**

**8.** Which of these small-cap funds has the lowest five-year return?
1. Voya Small Cap Opportunities A (NSPAX)
2. SEI Small Cap F (SIMT)
3. iShares Micro-Cap ETF (IWC)
4. Diamond Hill Small Cap A (DHSCX)

**From: When Advisors Have to Break Bad Tax News (online only)**

**9.** By how much did the child tax credit increase from 2017 to 2018?
1. $2,000
2. $1,500
3. $1,000
4. $500

**10.** What is the cap on the mortgage amount for which a single filer can deduct interest?
1. $750,000
2. $500,000
3. $250,000
4. $375,000

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Financial Planning offers its Continuing Education Quiz exclusively online at FinPlanCEQuiz.com

To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is April 30, 2021.

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Financial Planning

# Walking Away

I had to come to terms with the realization that my greatest challenges were self-inflicted.

**By Ashley Folkes**

I have taken some wrong turns in my life and career due to an intense, and sometimes impulsive, drive to succeed and gain acceptance. Growing up in Alabama, my family was very poor — we lived on food stamps. I've blocked out some of those memories as a survival tool.

I learned early on that, if I performed well, people would accept me. Sports came naturally, and I pushed myself academically. When I started excelling at both, I would feel like I was good enough. I set out to get as much acceptance as I could.

I decided to become a financial advisor after an encounter at a bank, my first job after business school. A man started crying because I turned him down for a loan he needed to bury his late wife. In that moment — at age 23 — I knew I wanted to help people plan for their financial future.


I saw some success early on in my career, but my performance issues never went away. They kept fueling my desire to be better. I would accomplish something that seemed significant at first, but the feeling would fade, replaced by the notion that I was subpar. As a result, I developed a need to push myself to levels others can't.

These anxieties were subdued by the feeling I got from watching someone's relief after we created a secure financial plan. But it still wasn't enough.

My drive to chase greater challenges led me to make a monumental decision in my career.

I jumped on an opportunity to move solely into management. I've had a few production management roles in my career, but I've always had direct contact with clients.

But as I'm never satisfied, I took the new position despite consultations with mentors and friends, all of whom told me that my gift was caring for people.

I left a low-stress position as one of the top three advisors at a practice in Alabama, uprooted my wife — she was about eight years away from being vested in her state pension — and took a 60% pay cut for more responsibility in Arizona.

My new task was to change the culture of a district with historically low performance. The position was much more operational and compliance-driven than I expected, and I struggled almost immediately. I would go home at night questioning whether I added value to anyone's life that day. The answer was usually no.

I kept thinking my feelings toward the position would change, but my self-worth didn't improve. The job began to impact my health. I walked away after nine months.

**I would accomplish something that seemed to be significant at first, but the feeling would fade.**

Unemployment is a very scary and uncomfortable place to be midcareer. I eventually found an opportunity in Arizona at the Boston-based boutique wealth management firm Moors & Cabot.

Now I add value to the organization, other advisors and my clients every day.

The unfortunate challenges I've inflicted on myself aren't my identity. I have an opportunity to be a better, more empathetic advisor, leader, mentor and overall person. **FP**

***Ashley Folkes,*** *CFP, is senior vice president of investments at Moors & Cabot in Phoenix.*

*To submit a Selfie commentary, email fpeditor@sourcemedia.com. Post your comments online at financial-planning.com.*

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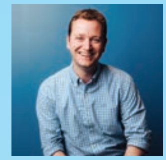

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