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Post-Conference Report

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We were proud to welcome nearly 1,800 Registered Investment Advisers to Boston for IMPACT 2015. This year's conference marked our 25th IMPACT – a quarter of a century celebrating the RIA industry. We have seen IMPACT grow over the past 25 years as we continue to bring together advisers, record keepers and an entire ecosystem of companies supporting them.

The RIA industry has grown from $1.6 trillion to $4 trillion in assets under management over the past decade – an exceptional accomplishment, but, truthfully, not all that surprising.[1]

For thirty years, advisers have placed the interests of their clients first. Relationships remain central to the independent business model today, and that will continue to set this model apart for future opportunities. That's why this model resonates so strongly and continues to thrive.

The theme for this year's conference was "Shaping Opportunities," and that is because we see a future full of possibility in an industry that continues to outperform. In fact, there is an estimated $23 trillion in assets from affluent households with $500,000 or more to invest sitting outside the RIA channel today,[2] and we believe these are the kind of investors RIAs are wellsuited to serve.

Advisers tell us they are thinking differently about how to take advantage of the opportunities in front of them as they work to build their businesses and continue to create their legacies. The future won't be about doing things better. Instead, it will be about capabilities, competitiveness and being more inclusive.

Schwab is proud to be a strong partner to RIAs in the great work they do. We are committed to continuing to provide the safety, security, efficient execution and consulting services our clients have come to know.

Please enjoy this special conference report showcasing highlights and some of the key insights from this industry-leading event.

Thank you to everyone who joined us in Boston this year. We look forward to seeing you next October in San Diego for IMPACT 2016.

All my best for a wonderful holiday season,

Bernie Clark

1 Cerulli Adviser Metrics, Schwab estimates, 2013-2014

2 Schwab strategy estimates, individual company financial reports, FDIC, ICI, Federal Research Flow of Funds, Cerulli Associates and Discovery Database

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25 years of IMPACT

Conference celebrates Schwab's long partnership with RIAs

Wednesday Opening Session with Bernie Clark

Registered investment advisers have made enormous strides in the quarter century since the first Schwab IMPACT conference and face exciting new opportunities and challenges in the years ahead, Bernie Clark told attendees at the opening general session of the 2015 event.

"I am honored to partner with you. What you do matters," said Mr. Clark, executive vice president of Schwab Advisor Services, whose Nov. 10-13 conference in Boston attracted more than 1,800 advisers and record-keepers. "You rise to the occasion every time, making things better for your clients."

He noted that Schwab acts as custodian for about $1 trillion in assets managed by RIAs, representing almost half of Schwab's total assets. Today, RIAs have more than $4 trillion in assets under management, as compared with $1.6 trillion a decade ago. Mr. Clark said that RIAs have been very successful at spreading the message that investors are better served by independent advisers, who work only for the investor.

More than 40% of Schwab-affiliated RIAs said they have doubled their AUM in the last five years, and the average firm profitability is up nearly 40%, according to Jon Beatty, senior vice president, national sales and relationship management for Schwab Adviser Services, who spoke at a pre-conference session.

But that is just the tip of the iceberg, Mr. Clark said. There is about $23 trillion in investable assets held by affluent households outside the RIA space, which represents an enormous opportunity for RIAs and their partners, such as Schwab.

There are also challenges, Mr. Clark said, including cyber-security concerns, the need for firms to find new talent, and the demand for advocacy both inside and outside Washington.

Another challenge is reaching out to Millennials and the generations after them. "There's a huge opportunity in front of us," Mr. Clark said. "What you've done has been so inspiring — but it's time to create again."

Younger investors are different in the way they interact and in the things they want out of life, he said, adding, "It will be like running multiple businesses in your firms." But ultimately, the challenge is mainly one of using different tools and approaches; relationships always will be at the forefront of the advisory business, he said.

Mr. Clark promised that Schwab will continue to work with RIAs to develop the tools they will need to grow their firms by serving new generations of clients with the same commitment and independence with which they have served clients for decades.

"We will serve you in every way in this noble mission — because you are the best," he said. ■

What if your clients live to 142?

MIT guru on aging has some advice

Joseph Coughlin, Massachusetts Institute of Technology Age Lab

Remarkable advances in life expectancy and major differences in generational outlooks are changing how financial advisers will help their clients with retirement, according to Joseph Coughlin, Ph.D., Director of the Massachusetts Institute of Technology Age Lab.

"Your industry is on the forefront of a new frontier to creating something entirely different," Dr. Coughlin told assembled advisers at IMPACT 2015, noting that half the babies being born now in the developed world will live to be 100, and some researchers say that living to 142 will be the new normal.

"This changes everything," he said, adding that life after retirement "is your new business." The value advisers will need to bring is how to help clients have the money and the imagination to fund life after the traditional retirement age — a period that might span 30 years or more.

Mr. Coughlin said that many current Baby Boomers are not planning on a traditional retirement: Some 40% of people over 50 say they intend to keep working. And companies concerned about the lack of people prepared to do the jobs now held by older workers may pay their employees a lot to stay on the job in at least some capacity. He noted that many Baby Boomers are interested in working part-time or in several different kinds of jobs. They have this in common with Generation Y, which refers to this as "working in gigs."

In addition, Mr. Coughlin said, extended life expectancies mean that there are many generations with which an adviser must interact, and those generations have very different ways of viewing the world. For example, a study group was asked, "Where did Kennedy die?" Older people answered, "Dallas." But younger people said, "Off Martha's Vineyard;" their reference point for "Kennedy" was John F. Kennedy Jr.

When most Baby Boomers started their careers, they expected to stay at one company and move up the ladder. But younger people have no such expectation, nor do they want to stay in one place. Mr. Coughlin said that in general, Boomers see work as exciting and necessary, Generation X sees work as a contract for their talents, and Generation Y sees it as a way to find personal fulfillment.

Interacting with the generations is also different, he said. Boomers like formal meetings with an agenda that yields action items. Generation X prefers brief meetings focused on tasks. And Generation Y is highly collaborative, so any information they receive needs to be vetted by their friends and family.

Younger people also are comfortable with technology, typically preferring an email or a text to a phone call, for example. And they are much more likely to have done their own research online before talking with an adviser.

But the generations also share several traits. For example, 70% of Americans of all ages say they have stress that causes them physical issues. In general, the most-stressed people are those between 37 and 57, who are dealing with issues involving money, family and health. These people need help with life now; they often are too overwhelmed to even think about retirement.

People also have a lot of clutter and noise in their daily lives from smartphones, websites and information bombarding them from all sources. As a result, Mr. Coughlin said, "Advisers must first get their attention."

In dealing with people under stress — which Mr. Coughlin called Generation S — advisers need tactics designed to ease rather than add to stress.

For example:

- Keep communication and meetings short and easy. It might be difficult for clients to come to the adviser's office, but they might be able to do a shorter Skype or FaceTime meeting.
- Keep it fun, even when delivering important messages. People under stress don't want to meet with their adviser and be told things that are going to stress them out further.
- Take small steps. Don't expect them to sit down and create a retirement plan and then stick to it. Instead, help them make small changes in their lives that might ease some stress and will help them begin planning for retirement.

"We have to find ways to get small chunks of information in a constant stream," Mr. Coughlin said. He suggested that advisers bring in other experts to help clients understand and manage all the parts of their lives.

The most important thing is to listen to what clients are concerned about and what they want. That way, Mr. Coughlin said, advisers can "cast a new story of what retirement can be." ■

Financial planning isn't just for Boomers anymore

Taking a new approach to serving Millennials

Alan Moore
President,
Serenity Financial Consulting

Wearing jeans and a T-shirt, 28-year-old Alan Moore didn't look like most of the speakers at IMPACT 2015. Equally unorthodox was his message: Advisers are largely clueless when it comes to attracting Millennial clients.

Mr. Moore should know. He started an advisory firm in 2012, which he sold to Abacus Wealth Partners where he became Champion of Next Gen. He also co-founded the XY Planning Network, which helps young advisers who want to serve post-Boomer clients — Generation X (born from 1961 to 1980) and Generation Y/Millennials (1980 to 1999).

"This is not a niche market; it's half the population of the country," said Mr. Moore,

> **"THIS IS NOT A NICHE MARKET; IT'S HALF THE POPULATION OF THE COUNTRY."**

who noted that at 92 million, Millennials represent the largest generation ever. Add the 50 million in Generation X, and that is 140 million people.

He also noted that $30 trillion will pass from Boomers to Millennials over the next 30 years. But he warned advisers to ignore that statistic because if that's the only reason they are reaching out to younger people and they're using a "Happy Meal" approach of offering younger clients a smaller version of what they provide older clients, it just won't work.

Serving young clients requires a whole new way of looking at financial planning, Mr. Moore said, citing several reasons:

- Young people don't have much money, so they are less interested in investing. That means that a fee structure based on assets under management is not viable.
- They have a whole range of problems that are much more pressing to them than investing for retirement. For example, they are buried by student loans and other debt. They are raising families and looking for ways to spend less time working. "They want to think about living great lives," he said.
- They interact differently than older people. They are much more tech-savvy, and they often prefer texting or emailing to talking on the phone or face to face. They don't have the time or interest to spend hours at a time discussing a comprehensive financial plan.
- They want to and expect to deal with an adviser close to their own age or in their own life stage. This is a challenge for the industry, since only 3% of Certified Financial Planners are under 30 – compared with 4% of CFPs who are over 70. The average age of a financial adviser is 56. Firms that want to attract younger clients are going to have to find younger advisers to serve them, and one main way to do so is to empower young advisers to help people their own age. If a firm is committed to this approach, young advisers will respond, Mr. Moore said.

He said that financial planning for younger clients involves less estate and tax planning, less high-level retirement and investing planning, and more discussion of debt management, lifestyle concerns, starting a business or a side job, taking mini-retirements or sabbaticals rather than traditional retirement, facilitating travel, and developing savings habits. Meetings are shorter and often virtual. The person in charge of the meeting is at the same life stage as the client.

Since younger clients typically have few assets, Mr. Moore suggests a fee structure like his own: An up-front fee of about $1,000 to cover basic financial planning services and then a monthly fee of $100 to $200 or more, depending on the complexity of the work. A smaller monthly fee is easier for young people to fit into their budgets than a large yearly fee, he said.

Clients who want investment management pay 1% of AUM; Moore said advisers can keep their costs down by using robo-investing and similar low-cost tools. He also suggested that advisers create a list of one-off services and charge a fee for those.

"We see this as the future structure of how firms get paid to do financial planning," he said, noting that it can create a profitable practice.

Mr. Moore emphasized that serving young clients is not for everyone, and advisers should not do it unless they are committed to changing their business model and everything from the way they attract and interact with clients to the way they find and retain advisers. But if they decide to take on the challenge, he said the rewards — both financial and in terms of helping clients live better lives — could be huge. ■

It's all about goals

Advisers can add value by customizing retirement income plans

Shlomo Benartzi,
UCLA Anderson School of Management;
Allianz Global Investors Center for
Behavioral Finance

Discovering retirement goals, not formulating retirement income strategies, should be an adviser's first step when helping clients plan for retirement, one of the nation's leading behavioral economists told advisers at IMPACT 2015.

"The vast majority of advisers think they ask about goals before retirement, but they don't," said Shlomo Benartzi, a professor and co-chair of the Behavioral Decision-Making Group at the UCLA Anderson School of Management and Chief Behavioral Economist of the Allianz Global Investors Center for Behavioral Finance.

Even advisers who do ask about goals "are likely to miss half of their clients' goals, and sometimes those that are forgotten are the most important ones," he said.

Speaking at a session titled, "Thinking Smarter: Behavioral Finance for Sound Life-Planning Decisions," Mr. Benartzi said that advisers who understand behavioral tendencies can add value and differentiate themselves by developing customized retirement income plans based on a strong understanding of clients' retirement aspirations and appetite for risk.

While helping clients identify their retirement goals, advisers should keep in mind three major challenges that have been identified through behavioral research, Mr. Benartzi said. They are:

- **We think too fast** – and really don't like to think. As a result, people tend to answer questions too quickly and often incorrectly, Mr. Benartzi said. He cited research showing that 70% of men and 33% of women would prefer receiving electric shocks instead of sitting and thinking for 15 minutes. "That's the reality with your clients," he said. "You might want a thoughtful discussion, but they say, 'Just solve it for me.'"
- **We think too narrowly.** This tendency is particularly evident when people are asked to articulate their goals without any assistance. "It's difficult for us to recall information," Mr. Benartzi said. "It's easier for us to recognize items."
- **We think "too shallowly.** Digital technology has trained people not to think or to think too quickly, Mr. Benartzi said, noting that "we're creating an environment of thinking less and doing things more quickly and emotionally."

One way to help clients think more slowly, broadly and deeply so they can set more accurate retirement goals is to provide a master list of retirement goals from which clients can choose the ones that apply to them, he said. Research has shown that when people are presented with a broad list, they inevitably select goals that had not occurred to them when thinking about retirement goals on their own, Mr. Benartzi said.

Using a master list also can make prioritizing goals easier. From the list, he suggested that advisers ask clients to put their goals in three buckets — most important, least important and moderately

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Combatting cybercrime

Advisers urged to protect themselves and clients against online fraud

Michelle Thetford, Charles Schwab Advisor Services; Greg Ruppert, Charles Schwab & Co., Inc.; Clyde Langley, Charles Schwab & Co., Inc.

Cybercriminals have discovered the trove of information assets that advisers manage and are coming for it.

"Gone are the days of the 14-year-old in their mom's basement, ordering pizza, hacking away," Greg Ruppert told advisers at IMPACT 2015. "You now face organized enterprises, working 24/7, 365 days a year, and billions of dollars are at stake."

"GONE ARE THE DAYS OF THE 14-YEAR-OLD IN THEIR MOM'S BASEMENT, ORDERING PIZZA, HACKING AWAY," GREG RUPPERT TOLD ADVISERS AT IMPACT 2015. "YOU NOW FACE ORGANIZED ENTERPRISES, WORKING 24/7, 365 DAYS A YEAR, AND BILLIONS OF DOLLARS ARE AT STAKE."

Cybercriminals are after personal information — names, addresses, phone numbers, Social Security numbers, birthdates and email passwords — to use for fraudulent purposes, said Mr. Ruppert, Vice President and head of Financial Crimes Investigations at Charles Schwab & Co., Inc., who joined the firm in 2014 after more than 17 years with the FBI, where he worked in cybersecurity.

"Fraudsters have figured out what the adviser business model is, and...that advisers use a custodian. They're specifically targeting the weaknesses and the different types of communication that go on in that model," said Michelle Thetford, Vice President of Client Strategic Solutions at Charles Schwab Advisor Services, who joined Mr. Ruppert at a session about cybercrime and fraud.

Another speaker at the session, Clyde Langley, a former FBI special agent for 22 years and now the firm's Vice President and head of Fraud Prevention and Investigations, said today's cybercriminals specialize in harvesting information through phishing and malware and then selling it for fraudulent purposes on the Internet. They typically take control of email accounts and online financial accounts and steal money through those accounts.

He said a common cybercrime is "the email compromise," in which cybercriminals take control of an email account and monitor account activity, waiting for a fraud opportunity. Research shows 41% of email accounts are compromised at any given time.

Mr. Langley warned advisers that they are extremely vulnerable to the business variety of this crime, in which their own email account or the accounts of their employees become compromised. A common version of this cybercrime targets firm leaders whom cybercriminals track through social media to determine when these decision-makers are traveling. Cybercriminals then use a leader's compromised email account to order someone at the leader's firm to arrange an emergency and immediate wire transfer or check disbursement. Langley emphasized the importance of verifying such requests, despite their apparent urgency and possible difficulties in contacting the decision-maker.

Similarly, advisers must beware of fraudulent emails from vendors notifying the adviser of a change in the vendor's bank routing instructions for payments, Mr. Langley said. Advisers also must guard against fraudulent emails sent to clients through the compromised email accounts of realtors, Ms. Thetford said. In a new scheme that accounts for almost half of the successful fraud attempts seen by Charles Schwab Advisor Services, advisory firm clients who are buying a home receive a fraudulent email from their realtor saying that the client's purchase offer has been accepted. The email provides instructions on where to wire a down payment, and the client then asks his or her adviser to execute the wire transfer.

As more financial firms tighten their email controls, Schwab has seen cybercriminals use more-sophisticated schemes to steal money directly from financial accounts online, Mr. Langley said. Another trend: cybercriminals, particularly Eastern European groups, use client accounts for "pump-and-dump" stock-purchase schemes.

Fortunately, proper controls can prevent up to 95% of the external fraud faced by advisory firms, Ms. Thetford said. She urged advisers to establish and test email and disbursement policies and procedures, and to educate associates and clients about these procedures and the overall threat posed by cybercrime. Ms. Thetford recommended calling clients to verify disbursements requested by email, encrypting disbursement forms and other forms emailed to clients, and holding employees accountable for following fraud-prevention procedures. It's also important to advise clients about fraud-prevention steps they can take and to remind them that they cannot expect automatic reimbursement when brokerage account fraud occurs, Ms. Thetford said.

She cited five common red flags indicating a client's email account has been compromised by a cybercriminal. They include an email that:

1. Asks for an account balance.
2. Requests a wire transfer or other disbursement while a client is traveling.
3. Plays off an emotional situation or a tragedy to request a disbursement.
4. Requests a disbursement and specifically says the client is unable to get to a phone or to offer a new number.
5. Is labeled "urgent" and requests a disbursement.

"When there's that sense of urgency, or any combination of these factors, you should treat that transaction as high risk and have extra conversations with your clients," Ms. Thetford said.

Advisers also should establish an "escalation path," or steps to take when fraud is suspected, she said.

"Time is of the essence. For the frauds that are successful with our advisers, if we're contacted same day, our recovery rate is incredibly high," Ms. Thetford said, adding that "one of the first things you should do every day is go through the disbursements in your clients' accounts to ensure that they look right to you." ■

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important — rather than asking them to rank goals individually. Asking clients to imagine best- and worst-case retirement scenarios also can be a very effective way to help them prioritize their goals, he said.

"What you get in the end is a picture of what (clients) care about," Mr. Benartzi said. Advisers should save the client's list of retirement goals and discuss it every few years to determine if anything has changed.

"It is a bit on the soft side, but to me it's the foundation of a discussion where you actually add value and create a plan for people," he said.

Identifying and prioritizing goals are two of the key steps outlined by Mr. Benartzi in his book, "Thinking Smarter: Seven Steps to Your Fulfilling Retirement...And Life." The book describes the seven-step Retirement Goal Planning System®, which also is available as a free Apple application.

Determining a client's true risk preferences also is crucial, Mr. Benartzi said, citing research that people generally are 2.25 times more sensitive to losses than to gains, although about a third of people are not especially sensitive to loss. Advisers should be aware of how their own loss sensitivity compares with that of their clients, he said, noting research showing that advisers' personal risk attitudes factor heavily in their investment recommendations, often making clients' risk preferences irrelevant.

"As an industry, we need to get a lot more sophisticated about measuring the preferences of clients and advisers, realizing where the gaps are," he said.

Mr. Benartzi also encouraged advisers to think about retirement income planning more broadly and to customize income plans as few people prefer a "flat-line" income stream in retirement.

"It doesn't actually have to be a line at all," he said. "You might actually have some peaks and valleys and ups and downs."

Mr. Benartzi predicted that personalized retirement income plans will become more widespread as behavioral finance merges with new technologies. "The more you create personalized plans that are really interactive and based on your clients, the more sustainable your business will be in the long run," he said. ■

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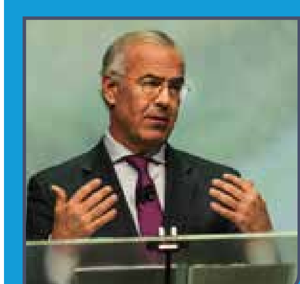

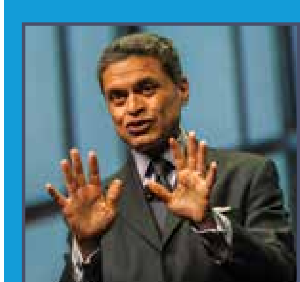

Retraining your brain to eliminate bias

To serve future investors, advisers' brains will have to move much more slowly


Lori Mackenzie, Stanford University

That seemingly contradictory message was delivered at IMPACT 2015 by Lori Mackenzie, Executive Director of the Clayman Institute for Gender Research at Stanford University, who explained how our brain's use of unconscious shortcuts to help make quick decisions often leads to unintentional bias. Those biases, she said, often inhibit advisers from reaching out to people of different genders, ages and ethnicities — the very people advisers consciously know they want to reach.

She urged advisers to take time to examine their thinking and the way they use language, which where most of the bias in the U.S. is based, she said.

"Language is the way we can transmit our inclusivity," Ms. Mackenzie said, adding that we need to force the brain to slow down and not immediately go to its bias-based shortcuts.

She urged advisers to analyze the words they use in their print and online material. Advisers should strive for a mix of language that is communal and inclusive, as well as "agentic," or directive in nature, so that they will be perceived as reaching out to many kinds of people and being willing and able to serve them.

She also urged advisers to look at the images used on their website and in print material.

"Most of what I see is targeted at what we might call 'top performers,'" meaning older white men, she said. "We are unconsciously relying on stereotypes of what we think of as our top investors." Subtly and without conscious thought, such communication excludes younger people, women and people of color, she said.

Meetings — whether with colleagues or clients — also can fall prey to unconscious bias, Ms. Mackenzie said, noting four meeting dynamics that limit inclusiveness: when a few people dominate the conversation and don't encourage others to speak; when comments by high-status people are given undue weight; when lower-status people don't feel comfortable contradicting incorrect statements by higher-status people; and group think, in which everyone accedes to the group, even if it is wrong.

To overcome bias in meetings, Ms. Mackenzie suggested that advisers implement five steps:

- Agree on and follow a few simple rules to make meetings more inclusive.
- Ask questions of people who might not be participating in the discussion as a way of soliciting their ideas and input.
- Address everyone as a decision maker. For example, ask, "Who would like to sign these papers?" rather than automatically deferring to the person you think of as senior.
- Control interrupters by asking the person who was interrupted to finish his or her thought.
- When a conversation goes off track, bring it back by saying something like, "What is the bigger goal today?" ■

Pessimism vs. hope

A global strategist, acute analyst and beltway sage look at perception and reality in investing and in politics


Jeffrey Kleintop
Charles Schwab & Co.


Liz Ann Sonders,
Charles Schwab & Co.


Greg Valliere,
Horizon Investments

Is today's investor pessimism warranted?

That's the question addressed in an IMPACT pre-conference session by Jeffrey Kleintop, Chief Global Investment Strategist at Charles Schwab & Co.; Liz-Ann Sonders, the firm's Chief Investment Strategist; and Greg Valliere, chief political strategist for Horizon Investments.

"The naysayers are wrong," said Mr. Kleintop, referring to investors who see gloom, noting that most economic forecast calls for growth practically everywhere around the world except the Mideast.

Timidity is causing U.S. investors to invest domestically, which is "the absolute opposite of what they should do," he said, explaining that globalization has made stock performance much more sector-correlated than country-correlated, and that international portfolios can help U.S. investors minimize downside risk.

Ms. Sonders agreed that investors are anxious, citing concerns about recent market volatility, fueled at least in part by what is happening in China and questions about whether — and when — the Federal Reserve will raise interest rates.

"Investors should care more about the better or worse than the good or bad," she said, reminding advisers that the time to make investment decisions is usually when you see signs that things are starting to change, not waiting until they have changed.

Regarding China, she said that while concern about its problems tends to fuel volatility, some of the fears may be overstated because China has little real effect on the U.S. economy, which she believes is at or closer to "escape velocity" than to recession. She used that rocketry term to describe the point at which economic growth is back to normal and no longer needs a boost from artificially low interest rates.

Currently, she said, price inflation remains low. The nation has created more jobs than it lost during the Great Recession and wage increases have begun to catch up to job growth, which are signals to the Fed that it's time to raise rates, she said. She hopes that the Fed moves slowly, because when it does "the market has done better one year out, and the pain has been less," she said.

All these signs, she said, point to an economic reality that is much more positive than investors seem to see. While investors remain reluctant to commit money to equities, Ms. Sonders believes the bull market still has room to grow.

On the political front, Greg Valliere said that voters, and especially Republicans, are letting it be known that they do not believe a political insider can fix what they see as wrong in the country. But Mr. Valliere believes the ascendance of outsiders Donald Trump and Ben Carson is part of what he called "the venting, primal scream stage."

"Act II is coming," he said, when Republican voters will evaluate which candidate has the combination of temperament and experience to actually serve as president. The shift may take a while to occur, but when it does Mr. Valliere predicted that Republicans would choose one of the following candidates, and offered comments on each:

- Jeb Bush, whose organization and money mean "he's in the race for some time to come."
- Chris Christie. "He used to be viewed as crass and rude and vulgar, but he's a pussycat compared to Donald Trump."
- Ted Cruz. "He can throw red meat at the base better than anyone." In addition, he has a reputation as an outsider.
- John Kasich. "He has one problem — Democrats like him."
- Marco Rubio. "The best talent in the Republican field." ■