Thought Leader Roundtable

The Seattle Quorum was joined virtually via Skype by a Houston-based executive from MFA Capital Advisors

Five financial services executives presented their views in a roundtable discussion moderated by Marie Swift and held in conjunction with the FPA Conference in Seattle, September 24, 2014.

Investment strategy was the primary topic of debate.

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Context / Setting

Following the FPA National Conference in Seattle on September 24, 2014, Marie Swift of Impact Communications sat down with four of the attendees for a roundtable discussion. One additional subject matter expert joined the group virtually via Skype. These executives included Brian Battle, director of the bond analytics group at Performance Trust Capital Partners; Eric Cott, director of financial advisor education and marketing for the OIC; Gerard Cronin, a CFA and portfolio manager for asset management firm Advisor Partners; Rich Gates, a CFP and regional director with asset management firm Loring Ward; and Robert Wyrick, managing member of Houston-based wealth management firm MFA Capital Advisors (Wyrick appeared virtually).

Since all of the roundtable participants have strong investing acumen, the transcript below focuses on investment strategy. But, due to the fact that Gerard Cronin and his co-authors Tim McCarthy and Daniel Kern had just released a research paper on active and passive investing, Swift began the discussion there.

Publication Notes

Raw video footage and still photos were provided by FPA. Video production and white paper transcript services were provided by Impact Communications. A summary article based on this paper was published in the January 2014 issue of the *Journal of Financial Planning*. Five individual video interviews (one with each of the roundtable participants) are available at www.AdvisorsThinkTank.com.

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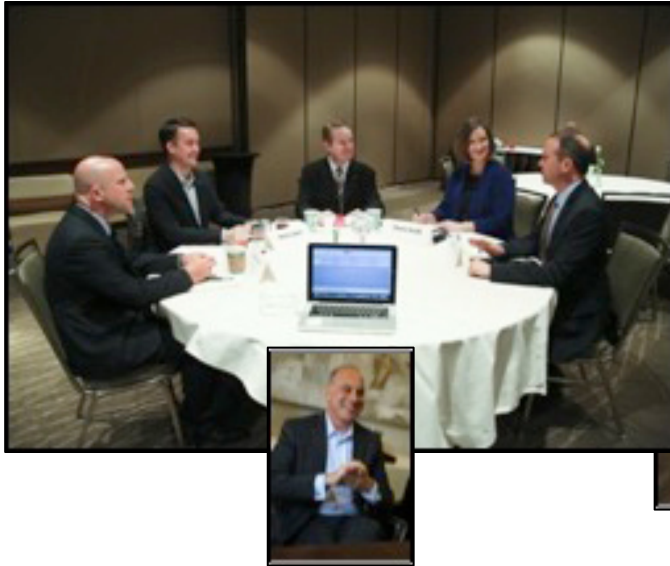

September 24, 2014 ~ Assembling in Seattle, Patching into Houston

MARIE SWIFT: This is the Investing Roundtable and thank you for being here. You have all read the briefing sheet so you have a sense of what everybody's initial philosophy is. I know that you, Gerard, and some other colleagues at Advisor Partners have recently produced a research paper. Could you start us off with that?

GERARD CRONIN: I'm Gerard Cronin and I'm a portfolio manager at Advisor Partners. We work as a trusted partner with financial advisors and their clients to help them find creative solutions to their investing needs. We help advisors to focus their time and energy on client relationships while we focus on the investment management. In the management of globally diversified portfolios we strike a balance between using active and passive management. We find other advisors investing exclusively – almost religiously – in either active or passive strategies. Passive strategies are inexpensive and more tax efficient. But we believe that we can identify active managers with the ability to beat an index on a consistent basis. We consider each asset class separately and decide whether it is better suited for passive investment or active investment. We've recently published a research paper that describes our process and current views on active versus passive – where does it make sense to hire an active manager and where is it best to passively invest in an indexed product.

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>
> *~ Gerard Cronin, CFA*

The research paper is called "Investment Selection: A Framework for Combining Active and Passive Investments." My co-authors on the paper are Daniel Kern, CFA, President and Chief

Investment Officer of Advisor Partners; and Timothy McCarthy, author and former president both of Fidelity Investment Advisory Group and of Charles Schwab and Company.

MARIE SWIFT: Rich, I know you have something to add to this conversation given what Gerard just said. What would you say about active and passive? Then we'll just go around the table and get everyone's introductory comments.

RICH GATES: At Loring Ward, we work with approximately 1000 advisors, serving as a resource for practice management solutions, an outsourced back office and an investment platform. We start from the framework that the value the advisor brings to the table, first and foremost, is as a planner not as a prognosticator. From there, we educate advisors on what will provide the highest probability of success of achieving their client's goals. For us, that means engineering a globally diversified portfolio built on academic research and financial science. To take a step further, it means focusing on what we control in the portfolio construction, such as which asset classes are used and how they work together; the level of diversification within each asset class; and tax-efficiency to just name three important factors. So a lot of people consider us passive, since we are not focused on the direction of the markets or outguessing them. The Loring Ward way is not indexing; it's using a strategic asset class approach with the goal of trying to provide a more consistent investment experience.

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> *~ Rich Gates, CFP*

BRIAN BATTLE: I'm Brian Battle from Performance Trust Analytics Group in Chicago. Performance Trust has been around for twenty years. We specialize and focus exclusively on fixed income management and what we try to do is manage interest rate risk. That's what the firm is founded on. We have 200 employees in Chicago. We have a client set that is nationwide and have spent twenty years educating and informing investors how to measure the maturity versus yield tradeoffs. After twenty years of providing educational seminars across the country to thousands of fixed income investors, and partnering with depository institutions and insurance companies we have come to the investment advisor RIA world to say maybe there is some education we could bring to RIAs as an investment advisor to help them manage risk. Our premise is don't use intuition or conventional wisdom because your intuition may get you

> *"At Performance Trust, we focus exclusively on fixed income and managing interest rate risk. We have spent twenty years educating and informing institutional investors on how to measure the maturity versus yield tradeoffs. We are now bringing that expertise to the RIA World."*
>
> *~ Brian Battle*

the wrong answer and conventional wisdom may not be wisdom at all. Because fixed income is mathematic, you can boil it down to measuring tradeoffs using principles of math and logic.

What we've seen is there are a lot of problems for portfolio managers in fixed income management; we are talking about core fixed management. We are not talking about credit, just core. The fixed income core portfolio is supposed to be predictable, delivering income and no drama. If that's what core fixed income is supposed to deliver, we think you should do that with an individual bond portfolio. To accomplish that you have to be able to measure those risk rewards analytically. In a sense Performance Trust Analytics Group is the outside analytical department for managers. These days what we've observed is that there is a lot of indecision and investors are waiting because they are trying to predict interest rates. Everyone knows interest rates are going to rise; they know it's going to happen. Our question and our challenge is that it's the wrong question if they're asking, "What am I going to do if rates rise?" We think the important question to ask is, "If rates rise and if rates rise in a specific time frame, what investment choices can I make?" And that is a frame of reference, an analytical basis where you can start making informed decisions.

ERIC COTT: I'm Eric Cott, the director of wealth advisor education for the OIC (Options Industry Council). The OIC is an educational cooperative that represents the twelve option exchanges and provides unbiased research, materials, and resources for individual investors, institutions and the financial advisor community. Our mission for the past 23 years is to be out there teaching the benefits and risks of listed options. So whether it is options on equities, indexes or ETFs we want the end user to be comfortable with this investment vehicle.

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All of us at this roundtable know the ETF marketplace has expanded dramatically. As an aside just to provide some background and why I was selected to develop the advisor outreach six years ago for the options industry, in my prior life I was a producing manager at the firm that used to have a bull as a logo. I spent a long time there and feel that I understand the difficulty advisors have managing client expectations. The investment vehicle which I represent, listed options, have a lot of misconceptions. It was part of the reason I was hired to develop the educational outreach to wealth advisors and assist this audience in understanding the practical uses and how options could benefit their practice.

We just released an updated version of our quantitative study last month called The Bellomy Study. The OIC worked closely with Bellomy, which is a research firm based in Boston. It was the first inaugural study ever done on options use for advisors; that was in 2011. We released the second study this year in 2014. What was interesting about both the study then and this latest version was the conversation about the direction of interest rates.

How can I possibly hedge or protect the portfolio of those clients that are worried about interest rate, macro or stock specific risk? That's where options solutions come in.

What we found from the study is that clients are driving conversations. Clients are calling their advisors and saying, "I'm worried about where rates are going to go. I'm also looking for income." A lot of individual investors lost a lot of money in the debacle of 2008. That is something they've probably forgotten about because the markets are going up but they still need an income-generating component for their overall portfolio.

We have multiple solutions. We really just try to cut through all the nomenclature and make it as easy as possible. I tend not to use the word options a lot anymore (or derivatives) and really bring it down to ground level for advisors. Two themes I talk about are risk mitigation and risk management. I think that's where advisors start to realize that we have solutions and as an educator we are unique because we don't charge you for what we do and don't sell. It's really a complement to a lot of the firms and the advisors and it's an exciting business.

"At MFA Capital Advisors, we continually tell our clients, almost all of whom are extremely well educated petroleum engineers and executives in the oil and gas industry, that maintaining a lower volatility portfolio is not only a smart way to manage risk, but also the key to better long-term returns."

~ Robert Wyrick

ROBERT WYRICK: At MFA Capital Advisors, we believe that managing market risk is of utmost importance. The democratization of information via the Internet has benefitted investors in countless ways, but amid the abundance of material, many people find it more difficult than ever to translate

this sea of information into usable knowledge. In addition, I believe that outdated thinking has led many people in search of the wrong information.

My team and I continually tell our clients, almost all of whom are extremely well-educated executives, that maintaining a lower volatility portfolio is not only a smart way to manage risk, but also the key to better long-term returns. Academic research points to lower volatility investing as the key to earning higher returns.

One of the predominate publications making this seemingly unconventional assertion is a paper entitled, "Benchmarks as Limits to Arbitrage: Understanding the Low Volatility Anomaly." The paper, first published in 2009 by Malcolm Baker of Harvard Business School, Brendan Bradley of Acadian Asset Management, and Jeffrey Wurgler of New York University Stern School of Business, examines the performance of U.S. markets over a 41-year period leading up to the publication of the paper. The results of the analysis directly contradict conventional investing wisdom, and may require investors everywhere to reconsider what they think they know about risk in investing.

The paper found that between 1968 and 2008, low volatility and low beta portfolios offered investors a unique blend of both high returns and low drawdowns. These results would suggest that not only is the idea that high risk is a prerequisite to high rewards false, but that the *opposite* is actually true: The riskiest stocks have consistently been the worst investments, while the stocks with the lowest level of risk have provided the highest returns.

GENERATIONAL COMMUNICATION

BRIAN BATTLE: The theme at this FPA event is education and information – and that is fantastic. As the population gets more mature they are seeking information. As Gen X and Gen Y come up they need to be fully informed. For twenty years, our firm has been providing education around the country. This is really a great time in the industry and I appreciate what the OIC is doing because what matters the most is the user understanding what is going on, and more importantly does his advisor know what's going on and have the ability to explain it to the client. One of the terms we use is "intellectual arbitrage." Wall Street knows something that you

don't. So what you should do is improve your decision making process, be fully informed so you know what the traps are; you know what the rules of the game are so at least you can avoid the pitfalls. The FPA is leading the educational charge. There is so much talk and information it's fantastic because the clients are going to expect it and it's what's best for them.

What's been really interesting is a theme I've come across when reading the industry's publication and sites: we had a stock market rally and most individuals that are aware of it may be saying to themselves "Well, what do I need my advisor for? I could have bought that S&P 500 Index and that would have returned X%." That raises one of the problems in this industry: for a long time it's been very easy. Advisors and planners have been a conduit to markets. That can be very hazardous for advisors. You are extinguishing your firm's value if you can't differentiate yourself some other way. So what you have to demonstrate and deliver is knowledge and leadership. You have to have both of those things. You have to demonstrate those to your client set and you can do that through education. The world has changed; we are in a different place right now, and educating the end user and advisor is where we are going to make inroads because the more you know the better decisions you can make.

ROBERT WYRICK: Technology drives all consumers today, and this is especially true for younger consumers. Money management firms should make a commitment to investing not just in client facing technology, but state-of-the art analytical tools that help deliver better results.

HISTORY REPEATS ITSELF

ERIC COTT: We all know at this table that history repeats itself. We can go back to the early 90s to the tech bubble where I remember those days when you couldn't sell any fixed income; you couldn't sell a client a 7% municipal security because what they wanted to own was the hot tech stocks. We are almost back to that again. I think talking about passive and active investment, and all the individual investors now hearing about all these technologies stocks and, you're right, things just go up. It's important for advisors to bring those clients back down to reality and look at how things can change and look at where rates are going to go. How can clients along with their advisors be properly diversified but also have realistic expectations.

RICH GATES: Most people, in my opinion, are just observing returns and not understanding returns. For example, you might see an investment or an asset class has done well over the last few years. Do you understand how it is achieving those returns and how it interacts with other investments in your portfolio?

HIGH-FLYING STOCK MARKET

GERARD CRONIN: Brian, this high-flying stock market you are talking about is a curse for asset allocators like you and me. Rich, as you said, for a certain stretch of time it seemed to some clients that everything I bought besides the S & P 500 was a bad idea. But those people are only looking at the rewards, not the risks, and looking at even that with the benefit of hindsight.

That is why I think the idea of diversification is a key piece of education that advisors and clients need to keep front and center because market cycles repeat. When the market continues to reach new heights, it is human nature to hope that this time will be different. But it is never different for that long, right? We have to explain the benefits of all-weather portfolios that diversify the sources of risk and reward – portfolios that can capture the upside benefits of rising markets but are also ready to protect the client's wealth in a down market. We diversify across equity, fixed income, and real assets such as commodities and real estate. Using options to hedge market swings is another way to do it. Diversification and the education around it is a place where advisors can really add value. When returns are disappointing, clients tend to want to get out of the market, and that is a disaster for clients because they miss the later market recovery. That's where advisors really add their value – guiding their clients and holding their hands through the tough times.

ROBERT WYRICK: I echo Gerard's comments about using options to hedge risk. We believe this is much more efficient than traditional asset allocation because we aren't investing based upon how an asset class behaved in the past. One doesn't have to look much further than 2008 to see how most asset classes performed under severe pressure. A simple hedge allows managers to create much more predictable returns. We like to talk about closing the "retirement delta" in terms of narrowing the range of expected returns.

WHERE ADVISORS REALLY SHINE

ERIC COTT: That is really where the advisors shine, holding people's hands through the tough times. They were the ones that were able to talk to their clients before the whole debacle occurred when non-correlating became correlated and you are forced to sell assets you wanted to hold. It's interesting talking about hedging or protecting that downside. I like to use the analogy I've gotten from one of my exchanges - the best ideas I get from others,) that you don't buy fire insurance when your house is burning down, right? I like to say I live on the east coast and when you get one storm every 100 years, which was Sandy, you buy flood insurance when it's your house when volatility is cheap. It's not a bad idea to look at what could happen when rates go up, how do you still participate in the markets without going to cash?

ROB WYRICK: Helping clients sift through the noise is an important role. We must help investors discern between what is information versus things that don't matter. News outlets have an increased necessity to fill more web space with stories that capture our attention. Often, this information can be misleading or self-serving.

HORRIBLE UNTIL YOU NEED IT

BRIAN BATTLE: That is one of our themes: insurance is expensive and horrible, until the day that you need it. You pay the insurance premium on your house and hope you never need it but you are glad you had it when you did. The thing we are trying to manage is the observation bias between 60 year olds and 30 year olds. The 60 year olds have seen market cycles; they are more conservative and they are going to rotate the fixed income, which we see happening. They remember 1987, 2001 and 2008. What I'm concerned about are the 30 year olds and 40 year olds who only experienced a stock market rally since 2009. If you are 40, you didn't really have any money until seven, eight, maybe even nine years ago. Their bias will be stocks always go up and interest rates have always been low. Like Mike Tyson says, "Everyone has a plan until they get punched in the face." If investors don't measure their risks, they are going to get punched in the face pretty soon if those two things are no longer true. Do stocks and bonds rally together all the time for long periods of time? Will we revert to the mean? I don't know if, and I can't predict when, but my concern is the more mature investors will understand that the younger ones are going to have to be taught a lesson and I don't think you can teach it to them because they have never seen anything else but they are going to learn the hard way.

I don't know if you have any experience, Gerard, on how to educate about history; that it's not always like this. Can you convince them? Can you demonstrate it to them or are they just going to have to learn?

A BIG SURPRISE?

GERARD CRONIN: Brian, what you are describing is the opposite of the generation who lived through the Great Depression and was risk averse forever afterwards. We've seen that experience is a powerful teacher. The challenge now is the same as then, although the environment looks different. We've had a bull market in bonds for 30 years now – interest rates have declined and bond prices have gone up – there are plenty of people who think that's just the way the world works. But today rates can't go any lower and the only direction they can go is up eventually. That will be a big surprise for those who have not been educated about this coming regime change. A trend can stay for a long time but then get quickly replaced by another. It is difficult to predict when these changes will occur. We prefer to prepare ahead of time and build a portfolio that is built not only for the current conditions but also looking toward the uncertain future. We know that change is coming but the timing is what is uncertain.

BRIAN BATTLE: When rates are this low, they can probably do two things. Going lower to negative rates seems improbable, but they can go higher, or be unchanged from here, which can be painful also. That's the murderous part of that, Gerard. You are exactly right on your fixed income observation, which is where Performance Trust Analytics Group is focused. Really, the U.S. has experienced a bull bond market since 1980 and rates have gone down. So has your success with fixed income been your strategy and your skill, or has the wind been at your back for 30 years? No offense but is your success your ETF or mutual funds or is it your strategy? You could close your eyes and the bond market strategy probably would have worked out okay. So we're at the trough in rates, and we don't know how long the trough lasts but it seems like it's time to maybe do something different and have some certainty about how it's going to turn out because when it hits, it's not going to be nice. I don't want to be a market Cassandra or say the sky is falling and it's going to happen any minute because I don't think that, but the lessons are going to be really painful.

RICH GATES: It's really scary! We do a lot of portfolio analysis of existing portfolios before they come over to us, and you see how much credit quality or duration risk some advisors are taking to chase yield, and that's the way they've been taught to invest. During this last 30 years, there has been more than one occasion where bonds had a negative return. And this was during a bull market for bonds. Now imagine if we are in a rising interest rate environment. How do you think clients are going to react?

ROBERT WYRICK: We absolutely believe investors should stay at the short end of the curve in terms of bond maturities, but we also believe investors can create the same risk characteristics of a 60/40 portfolio without owning any fixed income through the use of protective puts.

SHORT ATTENTION SPANS

ERIC COTT: And we also had the hiccup in 2011. Individual investors have very short attention spans and don't remember things. I think that it's important as we think about the Millennials and the Generation Y - one of the things we try to do is talk to them from the option side solutions but we also try to bring it home to what they are interested in. So if you were someone that was on Facebook, now if you're young you go to Twitter or Instagram or something else because your mother or father is now on Facebook, so you've moved from one to the other. Similarly in investments you might have been very favorable towards equities or stocks but there are other investments out there that might be appropriate and you might want to try it out. It's a difficult audience because they really want to have the information quickly and their attention spans are very short. As we all know having children, it's important to hit on the real emotional sides of it and what is relevant to them. History does somewhat come into play. But I think when and if the market goes through its cycle, which will happen, it could turn a lot of investors off if it happens really violently like it did in '08 because it took a lot of investors time to come back in.

LACK OF CAUTION

BRIAN BATTLE: And to Rich's point the lack of caution in investing behavior is disturbing. We have seen exactly that. There is an overall frustration with the low interest rate environment that the Federal Reserve has engineered. So what investors do is go down in credit and be a little shorter in maturity. That is yield-seeking behavior and that is really dangerous because you are not getting paid for that behavior. The payment for credit and structure is very tight. You are not getting paid to take that risk. We would rather take interest rate risk because you can manage that more measurably than credit risk. Because there is demand for yield there is a lot of migration to a dividend strategy. That's fine to do a dividend strategy but don't put it in the classification of core fixed income. Buying corporate names just doubles down on equity risk that is not comparable. So we've seen a lot of reaching or strategy changes to substitute for low rates and that pain could be magnified if you changed your allocations away form the intended strategy.

BEHAVIOR MANAGEMENT

RICH GATES: One of the biggest values advisors can add is behavior management. For example, all that the Millennial Generation has known for most of their adult life in regards to investment experience is the Tech Bubble and the Financial Crisis. Because of this experience, especially for Millennials, they are more conservative than today's retirees. Eric, you mentioned the Millennials like to do it themselves – which is most likely true, and the information is all out there. However, what investors seek is guidance especially when their portfolios become significant. So when I hear advisors' concerns regarding robo-advisors, they maybe legitimate. Robo-

advisors are growing, but they are not providing the behavior management or the guidance a real person can bring to the table.

ROBERT WYRICK: There is a place for so-called Robo Advisors, and I suspect some of the technology driving these platforms will make its way into more traditional firms. My biggest take-away from the advent of this type of advisory firm is that asset allocation has been commoditized. The price for relatively sophisticated asset allocation is now less than 25 basis points. In my opinion, it's not worth a whole lot more. Investment markets aren't the only markets that are efficient.

ERIC COTT: When you are talking about clients**,** one of the most sensitive aspects of life is to plan out their retirement. There's an emotional tie to it when you are investing and I believe that the younger generation realizes the value of face-to-face even though they want to read online and learn. At the end of the day want to have that handholding or guidance. There has always been Allocation 101, to have your investment dollars diversified across multiple strategies because that is how you can go through the ying and the yang of the marketplace. But we still go back to the education side which the advisor needs to incorporate as a first step rather than going right out to present the investment.

A BALANCED APPROACH

GERARD CRONIN: I think education around diversification is really important for Millennials. Many do-it-yourself investors, not just Millennials, are looking to beat the market. Putting all your eggs in the one basket of a stock you have a hunch about is the opposite of a sensible diversification strategy. Brian was talking about increasing yield by tilting from fixed income to equities. I believe that could be an appropriate strategy if the risks are understood and managed. We run a dividend strategy that takes a balanced approach in looking for high quality companies with safe dividends, not trying to swing for the fences. Even a conservative dividend strategy needs to be part of a complete diversified portfolio, though. I think it's not an exciting fun thing to talk about that with people that are new to the market. I'm sure that education piece is a difficult problem.

BRIAN BATTLE: Maybe the best thing for Millennials is to give them Benjamin Graham's book; you know you can talk about diversification and describe who Peter Lynch is*, "*Buy what you know." Go back to the old ways.

THE HOT STOCK

ERIC COTT: It's hard when you have televised programs out there talking about things like the Alibaba and the Twitter IPOs. And that's where the focus is. And it is exciting to be part of something like that as a shareholder. I hear it from my daughter who wants to buy a hot stock because she knows the company. But when it comes down to it there is an excitement about learning about investments and I think it's a good point about going back to some of the better technicians or the better strategists. I forgot who mentioned it, but one of you talked about how you bought things you've owned and knew about and stayed the course. Investors tend to sell at the worst time. What I like is when people ask me about my industry and I say, "using an options strategy is not gambling." I say let's take a step back. What happens when you buy a stock – that's a rhetorical question? It can either go up or go down or stay the same but you can't predict that. One of the values of my industry is that you have some predictability by using options and so when we add a nice complement for people that do invest in equities or even as a complement to somebody's fixed income. But there is still the issue of short-term memory.

BIGGEST TAKE AWAYS

MARIE SWIFT: Having heard your peers today, what is the one big take away for advisors reading this paper? In the next one-to-three years what do they need to be thinking about and how do they educate their clients?

BRIAN BATTLE: I think over the next three years advisors are going to be measured for, and valued for, their ability to provide context and set expectations. You cannot just be a conduit to markets. You have to be a thought leader and establish your ability to exercise prudent judgment. If you have a client come in and if they have their own plan, you have to be able to guide them through the investing process, show them how to mathematically measure trade offs between risk and return, between income and maturity risks. You have to show how this really works, providing historical context because there is so much observation bias and so much mass media information to sort through. The advisor has to separate the signal from the noise. The stock market has rallied nonstop in the last couple of years and the bond market has generally had a downtrend in yield and uptrend in prices. So having some historical context is going to be a great value and also set expectations. What should clients be doing going forward? We are not always going to get a 20% return on the S&P 500. We are not always going to have a gain in our bond portfolio but that's okay because the client hired the advisor to help them balance off sector and market risks if there is a downdraft. If there is a sell-off you are going to be okay and here's why – that's the message advisors need to be bringing to their clients.

From our conversation today, I think the one thing that was really important is that we have a historical context that we have to establish for our client set. Over the past twenty years, advisors have had the wind at their backs. We had a really good bond market rally going on for a long time and, in the shorter-term, we've had a tremendous stock rally from 2009 to today. So the thing advisors have to do is provide context and set expectations. Context is that it's not always going to be this good. We are not always going to have a bond market rally or a stock market rally especially not at the same time. So providing historical context for our clients is very important because the thing that is most durable to the relationship is to not be simply a conduit to financial products. You have to provide leadership and judgment.

The second part of that is setting expectations – having your clients know that this isn't normal, it's not always going to be like this and we can't predict the future. What we have to do is balance out that risk. If it isn't going to be like this forever, what could we do? What could we do to prevent a surprise in the future? And that is setting expectations so documenting our decision making process and then also leading our clients into a safer place. That sounds a little bit soft but that's really what we are doing. We are managing the relationship and managing expectations so they know what to expect in the future because that's what you're hired for. The client is thinking: "Take me to where I'm going to be okay and show me and lead me to where I can achieve my goals." That's our role – to provide historical context and set expectations that if it goes that way or doesn't go that way we saw it coming and are prepared.

RICH GATES: Look beyond investment management as your firm's value-add. What else are you bringing to the table? For example, how are you communicating and preparing clients for the next correction? Are the portfolios you manage based on the client's goals? Have you put together a financial plan? You have no control of the markets or the economy, but you have a tremendous amount of value providing guidance and helping with client behavior.

GERARD CRONIN: It was a great discussion today. I was excited to hear one particular point of agreement. Client education will continue to be very important because the future environment we are going to be investing in is definitely going to be different than what we've seen over the past decades. Certainly the bond market is poised for a change and will be looking at more

volatility in the future instead of the past. Clients need to be educated how we are going to be preparing them for that uncertain future.

At Advisor Partners, we believe that diversification is a key part of that preparation strategy. Not only diversification among and within asset classes but also having a mix of active and passive management. We recently wrote a research paper that looked into which asset classes lend themselves to active management and passive management. That would be a good education tool to use and share with clients.

ROB WYRICK: What should advisors be thinking about in regard to investing for their clients over the next one-to-three years? I generally recommend that advisors step up their game in terms of offering better risk management, and more sophisticated distribution strategies. One doesn't have to look beyond 2008 to see how most portfolios performed in a severe market environment. Most investment philosophies offer little predictability against market corrections, while the most important factor in determining long-term investment success is the management of downside risk. Advisors that focus on asset allocation will likely face tremendous pressure as clients seek a more thoughtful approach.

Clients should be educated in terms of sequence risk and the impact of volatility. Investment solutions must focus on market participation with mechanisms to mitigate losses. The financial lives of Americans have grown increasingly more complicated over the years, and therefore they need sophisticated solutions for risk management, tax efficiency and longevity of their assets. Expertise in knowing how and when to draw on which assets, and in the most tax efficient manner, will emerge as an even bigger differentiator over the next 1-3 years. Investors hire money managers to narrow their retirement risk delta.

ERIC COTT: In today's discussion, I think all of us agreed that there are challenges that are facing advisors in the next three years. And what advisors need to do is to figure out how they can differentiate themselves. We also talked about this theme of education, which is critically important. We are not quite sure what's going to happen in the next three years because we've been seeing unprecedented low interest rates. We've seen clients that worry about the ups and downs in the marketplace.

So what I would tell advisors that are figuring out what to do in the next couple of years is leverage others around you. Look to see what other advisors might be doing and how that might be appropriate for your practice. Look at ways you can enhance and differentiate yourself from others in the industry. Lastly, be face-to-face as much as you can with that client. Clients are very concerned about what's going on and you can't just expect the markets to be going the way they are. The next three years will be very exciting for advisors. I wish I could give them more prediction of where things are going to go but what they need to understand is that there are others around them that can help and grow their practices and they are in a very exciting business.

Roundtable Participants

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Brian has spent over 25 years analyzing, underwriting and trading in the fixed-income market. He has proven to be a tremendous asset for Performance Trust as well as the industry, particularly in his roles of municipal bond expert and media liaison. Recently, he has taken on a new role within Performance Trust's growing Analytics Group. As its director, he will use his expertise to bring their disciplined analytical approach to the middle markets in the financial industry. Brian is a frequent on-air commentator for CNBC, Fox News, Bloomberg, WTTW – Chicago Tonight, NPR, and MarketWatch radio. He has been quoted in the Wall Street Journal, Chicago Tribune, Reuters, and numerous online financial news sources. He holds a Bachelor of Science degree in Business and Economics from Winona State University in Minnesota and an MBA from DePaul University. He is a past president of the Municipal Bond Club of Chicago and an instructor at the Municipal Bond School in Chicago.

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Over the last 20+ years, Eric has supported, served as and directed financial advisors through different roles. Most recently he was a Regional Vice President and Retirement Income Consultant at Sunlife Financial Distributors Inc. where he identified and cultivated new business, increasing assets and revenue share. Prior to that, Eric spent the majority of his investment career as a Producing Manager and Assistant Vice President at Merrill Lynch Pierce, Fenner & Smith, Inc. where he built and maintained a successful wealth management practice. As a representative for The Options Industry Council and serving as Director, Financial Advisor Education, Eric endeavors to help advisors and their firms to use options more effectively. He is responsible for participating in panel discussions, presenting advisor-oriented educational seminars, and developing options curriculum and content for the OIC Advisor web site. Eric holds a BA in History from University of Wisconsin-Madison and a BA in Economics from Tulane University.

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Gerard develops asset allocation models and selects ETFs and mutual funds for multi-manager products at Advisor Partners. He also assists in the ongoing oversight of portfolios, including construction, risk management, and cash management. Previously, Gerard was a research analyst at Charles Schwab Investment Advisory, where he performed manager due diligence for separately managed accounts and mutual funds. He covered alternative investment strategies, specialty sector strategies, and asset allocation investment strategies. Prior to his investment career, Gerard worked in the computer hardware and environmental services industries. Gerard holds a BS in Civil Engineering from Carnegie Mellon University (CMU) and an MBA from CMU's Tepper School of Business. He is a CFA Charterholder and teaches ethics and private wealth management in the CFA Society of San Francisco's exam review program.

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Richard Gates is a Regional Director at Loring Ward, directing business development efforts within Loring Ward's Midwest Region based out of Chicago. He is responsible for working with financial advisors throughout the Midwest to help them grow their fee-based and fee-only investment management business through the Loring Ward offering. Prior to joining Loring Ward, he was both a Regional Planning Specialist and a Regional Consultant for Genworth Financial. Prior to Genworth, he worked as a Financial Analyst Associate for Scudder Investments and a Senior Practice Development Manager for Buckingham Asset Management. He holds a Bachelor of Science degree in Chemical Engineering from Washington State University.

Robert Wyrick
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Rob is managing member of MFA Capital Advisors, a Houston based boutique advisory firm specializing in hedged-risk investment management, tax strategies and distribution planning for corporate employees. From their flagship risk-managed portfolios to their proprietary tax and distribution planning strategies – their end-to-end solutions stand as testament to their commitment to revolutionize the way people manage and view market risk and distribution planning. Rob and his team assist current and former employees at many of the nations largest corporations. MFA's proactive, hedged investment methodology is designed to help expand MFA clients' assets while preserving capital in difficult markets. Prior to establishing MFA in 2009, Rob was president of Texas Capital Management & Research for seventeen years. He studied business administration at the University of Houston. He graduated with a BBA from the University of Houston.

Marie Swift
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Marie Swift is a nationally recognized consultant who has for over twenty years worked exclusively with some of the industry's top financial institutions, training organizations, investment advisory and financial planning firms. A top rated speaker at dozens of industry events, Marie is dedicated to elevating the conversation in the industry. Marie is also a prolific writer and contributes to many of the industry's leading publications, including Financial Planning magazine and Money Management Executive. A thought leader for thought leaders, she is known for bringing some of the industry's best and brightest voices together for dialog and debate. Her Thought Leader Roundtable series is just one example of how Marie generates interesting conversations with movers and shakers in the financial services industry.

This Thought Leader Roundtable produced by:

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