Executive Roundtable

Four financial services executives presented their views in a roundtable discussion following the Tiburon CEO Summit XXV in San Francisco, October 9, 2013.

Investment strategy was the primary topic of debate.

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Context / Setting

Following the semiannual Tiburon CEO Summit in San Francisco on October 9, 2013, Marie Swift of Impact Communications sat down with four of the attendees for a roundtable discussion. These executives included Ron Carson, a CFP and founder of the Carson Institutional Alliance; Daniel Kern, a CFA and the president and chief investment officer for asset management firm Advisor Partners; Alex Potts, the president and chief executive officer of asset management firm Loring Ward; and Michael Winchell, a long-time institutional investment strategist who recently established Larkin Point Investment Advisors and rolled out a new equity preservation mutual fund.

Since all of the roundtable participants have strong investing acumen, the transcript below focuses on investment strategy. But, due to the fact that Ron Carson said during his panel presentation that succession planning for advisors should be regulated, Swift began the discussion there.

Publication Notes

A summary article based on this paper was published in the December 2013 issue of *Financial Advisor* magazine (see the online version of that article at www.FA-Mag.com.) Four individual video interviews (one with each of the roundtable participants) are available at www.AdvisorsThinkTank.com.

Inquiries About this Paper

Al Martin, Director of Media Relations, Impact Communications, Inc.

(800) 974-7753 | ImpactMediaManager@ImpactCommunications.org

Video production services by Impact Productions Group

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MARIE SWIFT: We rarely get the opportunity to talk about what we hear during the consumer panels that Tiburon Strategic Advisors pulls together twice a year. Typically, these panels of well-heeled consumers ask that no reporting be allowed. Since we have been given permission to speak publicly about what we heard and, more importantly, what we thought as we heard each of the three individuals talk, we are free to openly share our views and observations related to the consumer panel. In addition, since all of you have strong investing acumen, I'd like to focus our conversation today on the big pitfalls and opportunities that can undermine or help financial advisors over the next 1-5 years. But before we go to those topics, I want to ask Ron Carson to share the three big things he brought to the stage during his panel presentation. Here is my first question to you, Ron.

SHOULD SUCCESSION PLANS BE REQUIRED AND REGULATED?

RON CARSON: I am bringing three points to the table for debate today. The first is I believe there needs to be more regulation, specifically as it relates to succession and continuity planning. A disaster recovery and business continuity plan is required, so why not a succession plan? There's a far greater chance of dying or becoming disabled than any one of our businesses being interrupted by a tornado or some natural disaster. So I find it ludicrous that one would be required and the other wouldn't be. I have some concern of how that would be done. Bare minimum, I believe advisors should have to have it in their ADV and be required to give it to clients, just like a prospectus, to say this is my succession plan. Even if it's not a great plan, it should be required. Then the marketplace can decide whether or not it's enough. I really believe less than five percent of advisors actually have a succession plan. That's appalling.

This morning I was on the phone with an advisor on the East Coast; he's a big advisor and I've known him for twenty years. He's always told me that he's had a succession plan. But now that

he's considering joining Carson Institutional Alliance, and we're doing our due diligence, the truth comes out. He said to me "I know I've told you I've got one, but I couldn't bring myself to tell you that I never actually put it into place. But in my mind I've got it." Well then it doesn't count. He's a leader and people really look up to him, so if they found out that he doesn't have one, it wouldn't be good. It tells me that having advisors just check a box that says "I've got a succession plan" isn't enough.

Our clients' lives should not be interrupted just because we didn't plan properly, and we are planners. They expect that, as a minimum, we are going to be able to plan for all of our own contingencies. I was at the TD Ameritrade conference in January and a gentleman came up to me. We were talking about succession planning when he asked me for advice. I said, "surround yourself with human capital because it will be a competitive advantage if you can tell people how your business could continue if you were not there anymore. He told me he had a +succession plan with which he was really comfortable. Tragically, three months later he was killed in a hang gliding accident. A business valuation firm did the business evaluation and tried to help, but bottom line, his wife and little kids have nothing because he really didn't have an executable succession plan. So I'm going to continue to carry the flag on this.

MICHAEL WINCHELL: I have been involved in three private businesses. In one case, where we had 400 people in the firm, the other managing member passed away. In the second one, where there were just the four of us, a partner passed away. In both cases we had succession plans, a strong culture and a corporate structure that was robust enough to go on. We knew how we would take care of the widows and what the evaluation parameters would be. So I think that you're spot on with how it ought to be. You're right; to be a planning firm and to not plan and recognize our human frailties is a big mistake.

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> ~ Michael Winchell
>
> Chief Investment Officer
>
> Larkin Point Investment Advisors, LLC

ALEX POTTS: But do you really think it should be regulated? I agree that every businessperson, whether it's a doctor or attorney or financial advisor, should have a succession plan. But I don't think there should be a regulator saying you have to have a succession plan.

CARSON: We have rules and regulations for the public good. We have to have a disaster recovery plan. Why not require a business continuity and succession plan? I'm not saying the plan has to be a certain way, just that advisors should have to disclose what they have. Maybe it's as simple as disclosing, "I have no succession plan and here are the consequences of me not having a succession plan" or "I have a succession plan and here is an overview of it and the benefits to you."

WINCHELL: It should be on Part 1 of your ADV; you check a box "yes" or "no" and the plan could be available upon request. While it may not be possible to require one, there could be a statement or affirmation of whether you have one or don't have one.

CARSON: A lot of times advisors say, "How do I really know if it's going to work?" I tell them to ask their best clients questions such as: "Will you stick around in the event of my death, based on the people currently in my firm?" Part of their answer will be based on the quality of the people that you have. In a lifestyle practice, where you have a couple good people working with you, it can probably run efficiently and smooth for six to twelve months without you. Imagine a one-man band, someone that only has one assistant or is just there themselves; then they're gone. Imagine the chaos that would create.

STEALTH COMPRESSION IS A CHALLENGE

CARSON: Stealth compression is another problem. The fact is, we are all having to do a lot more for the same fee, but service requirements remain the same or have even grown. I wonder why we as an industry aren't really talking about this. I know my margins have really come down.

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> Founder, Carson Institutional Alliance

In addition to needing to do more for the same or reduced fees, the cost of doing business has gone up. For instance, at a recent Barron's top advisors conference we were talking as a panel about what we invest back into our businesses. The consensus was we put about twelve to fifteen percent of our top line growth into technology. A good technology "spend" will promote best practices and efficiencies. On the flip side, spend too little and pretty soon you'll be in big trouble – you'll be exposed. Each year it seems like we're putting into technology a bigger percentage just to stay relevant and keep up with the marketplace.

DAN KERN: Our industry is the opposite of the consumer products industry in which they make your packages smaller while charging the same amount, so you have the illusion that you're getting the same amount, but you're getting less for each dollar you spend. In our industry we are giving more and more for the same price; we have the illusion that we're not having to cut prices, but we are tacitly doing so. As you were speaking, Ron, I was thinking, "We are the opposite of General Mills and Procter & Gamble." The other thing that resonates for me is that, next to people, technology is the biggest cost we have. Inflation is supposedly low but inflation for some of the things that matter most to us continues to be high.

IS YOUR BUSINESS MODEL COSTING YOU?

CARSON: Advisors really don't understand the cost of their models. When advisory firms come in under the Carson Institutional Alliance, we do a business analysis. We see where the inefficiencies and weaknesses are. By reshaping the way they do business, we can cut costs, redirect who gets paid, and give a portion of that back to their clients.

Advisors almost always dramatically underestimate what the actual all-in costs are on their portfolios. I am planning to do a study and have advisors guess what they think their real costs are, and then really dig in and find out how accurate they are. I think it's going to be thirty to fifty percent off the actual number versus what they think it is.

The reality is that most of our Peak Advisor Alliance members are hybrids, which I think is the best way to serve a client. The reality is that working primarily on a fee-basis while offering brokerage services is truly in the client's best interest -- otherwise I would have given up my broker's license a long time ago. But I came to the conclusion that what was convenient for me wasn't in the best interest of my clients. We put our clients' interests ahead of our own, but we also have to be very aware of all the expenses that are out there.

Advisors don't get it; consumers don't get it. During a panel presentation last week at the Peak Advisor Alliance meeting in Omaha, one of the consumers said from the stage, "My advisor really doesn't charge me anything." And this morning, here at the Tiburon CEO Summit, one of the consumers on the panel who works with Goldman Sachs and Morgan Stanley said in one breath that he isn't even really sure what he pays, but that he thinks he knows what all the costs are. But, really, he doesn't have a clue.

Our industry is as random as the people we serve. The best advisors out there are great relationship people; they are not money managers. The ones that are really growing have decided, "I'm going to be an asset gatherer, I'm going to delegate to people and say this is what I do. I can do the forensic accounting to make sure we're transparent and you understand what all the costs are." Once those advisors understand it, they can teach, and I think that will also give them a competitive advantage.

BIG TAKE-AWAYS FROM THE CONSUMER PANEL

MARIE SWIFT: Let's talk quickly about the big takeaways from the consumer panel. I thought that that was the best consumer panel I've ever seen at the Tiburon CEO Summit. What stands out to you, Alex?

> "Sadly, the vast majority of people do not understand what they own. They don't even know what kinds of risks they are carrying."
>
> ~ Alex Potts, President & CEO
>
> Loring Ward Group, Inc.

POTTS: The consumer panel was highly educated, but they all have a disparate philosophy on how they invest. You have somebody who holds a large portion of hedge funds; they own private equity funds; they're afraid of the quasi-market, there's no asset allocation strategy; they have no plan to get to where they want to go. They don't even know what kind of risks that they're actually carrying. Sadly, I think that's the case for the vast majority of the people in the country. As an industry, this is something we need to keep getting better at: educating people on how to build a plan and reach their goals for the least amount of risk. Every time I hear a consumer panel these themes tend to reverberate, unless they have a good advisor or they are very deliberate on how they do their plan; but most aren't.

> "I've never once heard an advisor say that their clients want to take a lot of risk. Consumers may say they are risk adverse but their actions do not correspond."
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> President, Advisor Partners

CARSON: Did anyone pick up on the one panelist who said his primary objective was capital preservation and then when asked, "How do you know if your advisor is doing a good job?" he replied, "As long as he's beating the index." Talk about opposite ends of the spectrum.

DANIEL KERN: I think that's the dichotomy that we all face in this business. We work with clients and they say one thing, but they do exactly the opposite thing. I have many discussions with advisors about their clients, and I've never once heard anyone say that their clients want to take a lot of risk. Consumers may say they are risk adverse but their actions do not correspond.

WINCHELL: My big takeaway was that their view of advisors' value was only asset selection. None of them seemed to have a comprehensive financial plan. They did not talk about life insurance or estate planning, or all the things that really distinguish planners. They talked about fee-only, but they didn't understand that the advisors are delivering many things for the fee, asset selection being probably the last, not necessarily the least, that planners and advisors do.

The second thing that stands out was their response to my question about their asset allocation. They have such high-risk investments and they clearly made their money recently; I wonder what their portfolios are going to look like in another '08 type sell-off. Private equity will look fine for a while but then they'll find that there is no market for it. So they think they have this low volatility portfolio when in fact they have essentially something higher beta than Russell 2000 in the private equity. The hedge fund can be so many different strategies. Only the lady on the left had a sense of needing to diversify, and she looked pretty young for both her and her husband to be retired. I actually thought that she was the most likely candidate to hire an advisor after she got off the stage.

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CARSON: Two of the panelists today said they don't like their advisors; and we saw that as a common theme at the Peak Excell meeting in Omaha last week where the Baby Boomers were mixed in their comments but the Millennials didn't trust advisors at all. But my big question is: why would you stay with an advisor you don't like? It's because clients don't know where to go or what else to do. The woman in the middle on today's panel admitted she doesn't even know what she has in the way of assets; she just knows it's a hedge fund. That's kind of like saying you own an automobile -- there are hundreds of different brands and models. Educated investors are conscious and competent; they know they don't know everything.

KERN: I would like to echo some of the comments Ron made earlier about succession. I come at this just a little differently in that I spent a lot of the last twenty years either directly or indirectly in the public company realm. One of the changes I've seen over that frame of time is the amount of time that corporate boards and fund boards spend talking about succession; thinking about it, having a plan, having open dialogues about potential successors. The need for succession planning is even more critical for advisors who lack the deeper bench of a public company, and have a business that is much more reliant on personal relationships. So whether or not it should be a regulatory mandate, it certainly should be something that's much higher on the list of the top five or six things clients should know about their advisor.

CARSON: I agree with you, but beyond trying to just educate consumers and advisors, I believe it would be good to mandate disclosure about the advisor's succession plan.

POTTS: It actually tucks into business continuity. If I'm an advisor and am a fiduciary for my clients, I owe it to my clients to have business continuity. We have to disclose that now; the idea of a succession plan should already be tucked in here. That would be pretty easy to do. The idea of having it government mandated, I think a lot of people would probably cringe on that, but it is good business practice.

KERN: I would probably characterize it a little differently. I'm not necessarily clamoring for *more* regulation but I'd like to see *better* regulation. Disclosure of succession planning is part of a better regulatory approach. We have a lot of rules and we are a highly regulated industry, but a lot of those rules mandate silly things or create one hundred-page insurance agreements or eighty-five- page mutual fund prospectuses that don't tell you what you really need to know as an investor. I would love to see a lot of the rules thrown out while we build something that makes sense from scratch.

CARSON: I couldn't agree more. I say more regulation to get peoples' attention, but I think something good should be done with it.

WINCHELL: I'd like to echo something Alex said, which is that really it's about best practices. If you're not comfortable talking about your own death and passing as an advisor, how do you expect to approach that issue with your client who has these same issues? As an advisor, part of the biggest job that you will have to do is to have that discussion: how are your children going to succeed you and inherit your wealth, how do you want that to happen, what have you done in your business, how have you protected your assets so that some event isn't going to wipe out your plans and aspirations? I actually think that's a great way for an advisor to start that dialogue: Here's what we do at this firm, here's what you might think about doing too.

CARSON: I actually recorded my death message, so I have a ready-to-use message with my board and that will go out to all stakeholders, employees and clients if and when needed. They can confidently say here's what has been put in place, here's why it was put in place, and rest assured that you're going to be taken care of.

THE GREAT INVESTING DEBATE

SWIFT: Let's bridge back and have a little more conversation around investing. Alex, you asked the consumers on the panel today if they understood active versus passive investing. So let's talk about tactical, strategic, active and passive investing.

POTTS: Where the question was going was did they have an underlying philosophy; did they even start off with a plan? This became evident; there was no plan. Because there was no plan, there were a whole bunch of risks that were unknowingly taken. Among that panel, every one of

them had investments that could go to zero. At Loring Ward, we build diversified portfolios. Just the idea of eliminating bankruptcy risk from a portfolio is one of the easiest things an advisor can do, and it comes at very low cost to do so. I struggle when I hear people build a plan and they don't even have a philosophy. Or maybe they were sold something, which is even worse.

WINCHELL: At Larkin Point, we really embrace passive investing except that we also use options. The difference between us and many people trying to create liquid alternatives, or the alternative way of achieving diversification, is a systematic management process. We look at people who buy options on a periodic basis, tactically, as essentially engaging in market timing. We look at people who are consistently selling covered calls as a primary strategy as just basically selling puts -- they are on one side of the volatility spectrum; they are selling off the upside. Our core investment strategy is to use low-cost ETFs and to shape our option strategy in a systematic fashion around the ETFs by both buying and selling volatility. We buy it by buying long-dated protection, and we sell volatility by systematically trading straddles around that with additional downside protection. We think of ourselves as indexing in the options marketplace in order to reshape a return distribution that needs to be reshaped given the prospect of fixed income failing to be the protective asset that it was in the last thirty years.

POTTS: Something you said really resonates with me. Philosophically, whoever invented the word passive was probably an active manager, because passive doesn't necessarily mean passive. You're owning an asset class, or you're owning bits of the market in the purest form of modern portfolio theory. If you have an impure asset class or if you have style drift in your asset class, it can contaminate your entire portfolio. Basically when you're doing your asset allocation models and understanding volatility, if you bring in an active manager to that, now you have an uncontrollable variable. You have opened yourself up to idiosyncratic risk, which there is no need for. From a Loring Ward perspective, we never want the advisor to have a conversation apologizing for what an asset manager did.

CARSON: When it comes to different strategies, I embrace them all. The discussion at my firm is centered around knowing your family index number, the rate of return needed to achieve your goals and objectives and sticking with your investment strategy. There are times when passive works, and there are times when active works. I read a study this morning and the variable where you could add value was having all these other things happen in the planning so you didn't react or you didn't change. Once you pick what your appropriate mix is, unless there is a life-changing event, then you don't change your mix.

WINCHELL: Some of the buzzwords that I've learned over the past couple of years are goals-based financial planning and behavioral finance. One of my great analogies is this: on CNBC people will tell you that essentially Warren Buffett is who you should emulate; but think about all the people who don't have an insurance company to spit out cash every day and can't double down when the market is down twenty five percent. If you are an advisor and the portfolio you created for that client is down thirty percent, that could become a life-altering event.

POTTS: You build a plan, and you help that investor stay invested. The fact is, any one of us can build the best portfolio in the world, but if an investor cannot tolerate that portfolio, it doesn't matter.

CARSON: Back to the panel last week in Omaha, one of the Millennials said, "Why on earth would I pay you guys a percent, I can just put it in Berkshire Hathaway for nothing, and look how well I've done." I said, "In 1998 or 1999, Berkshire Hathaway's stock fell about forty eight percent from peak to trough. What would you have done, would you have stayed with it?" The panelist didn't have an answer for that. The clients always do the wrong thing at the wrong moment if it's not part of an overarching plan.

"The average investor buys high and sells low. That to me is validation of the need for advice."

~ Daniel Kern, CFA®

President, Advisor Partners

KERN: The studies that show the difference between the performance of the market and the average investor's experience are really telling. The average investor buys high and sells low. That to me is validation of the need for advice. On the passive versus active debate, we at Advisor Partners are largely sympathetic to Alex and Michael's views of some of the virtues of passive investing. I don't particularly think passive works in some parts of the market. We tend to pave a middle road in the active-passive debate, because there are parts of the market where we think active reduces your risk by saving you money in adverse market environments.

CARSON: What about technical versus fundamental? To me, this is driven by the strategy and the disciplined focus that it adheres to on a daily basis. At Carson Institutional Alliance, we have strategies that are purely fundamental, purely technical and even a combination of each with clearly defined processes and objectives. I used to be a pure fundamentalist and I've absolutely changed my tune. Technical analysis will tell you about information that the market hasn't fully priced in yet, and it is a risk management mechanism.

KERN: When I started in the business, I didn't really understand the technical side. The market tells you things, and sometimes you can't articulate what's causing it but there is information in the data. We try to take that into consideration as well.

SWIFT: Dan will you talk a little bit about bond indexes -- did I hear you say that they're broken?

KERN: Yes, I think that's the polite way of putting it. In simple terms, most of the commonly used bond indexes reward failure. The biggest borrowers tend to have the biggest index weights. I liken it to being in a neighborhood where you have two people in the neighborhood: one that paid ninety percent cash on his million dollar house, and another one down the street that only put one hundred thousand dollars down on her million dollar house. Bond indexes reward the latter, but to most folks that doesn't make sense.

POTTS: Doesn't that show up in the price? Who would you expect a higher return from?

KERN: It doesn't show up as well with price transmission mechanism in bonds as it does with equities. Part of that problem ties back into the failure of rating agencies. Here's a tangible example: In September 2009, arguably the most popular international bond index, the Barclay's Global Treasury ex-US Index, had twenty two percent in Italy, Spain, and Greece. If you add Japan to the mix, Japan was twenty four percent of the index. This index did really poorly after the debt crisis started. A lot of these indexes are based on how the rating agencies classify bonds. The bond market has experienced many periods in which risk has been mis-priced, including the prelude to the sovereign debt crisis in Europe, the years leading up to the housing crisis in the U.S., and several periods in the high yield market. We think that active managers, while not infallible, do a better job of avoiding these bond bubbles than the indexes.

POTTS: The market, in our view at Loring Ward, tends to be incredibly efficient on the bond side. When there is turmoil in the country, you have a higher expected return and you are probably going to pay less for that bond with a higher expectation of a greater return. In our community view, the market is very efficient and, in fact, faster than the rating agencies can rate it. That general principle, whether it's a bond or a corporation, is an important concept. The issue that we run into is that it can't predict the future. In the end, we want those bonds to reduce volatility in an equity portfolio.

CARSON: We've had a thirty-year bull market in bond price. Back to the investors not really knowing: they bypass performance and look at return. We've talked about the risk of return; but we've never had to talk about return-free risk. One of our strategies, we call "Write Income;" we purchase blue chip sector weighted companies and sell covered calls and generate a fair amount of income. I just think going forward advisors are going to have to find alternative ways other than bonds to provide or fulfill that fixed income portion of the portfolio.

KERN: So here's the thing: we have three decades of people who manage money for investors and, really, they have only known one kind of scenario for bonds. There have been relatively short reversals in the downward trend of interest rates. But now the entire mindset around diversifying portfolios and generating incomes has to change. We need to rethink our relationship with bonds. We are in a low-interest rate environment and the likely trend is for interest rates to rise in coming years. Our clients and many in the industry don't understand what it's like to live in a five- to ten-year cycle of mostly rising rates.

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WINCHELL: I think what we are really talking about is the systematic risk of a bond market. The statistic I like to quote is this: In 1998 in the United States, there was roughly sixteen trillion dollars of listed equity market cap, and there was roughly twenty three trillion dollars of debt outstanding. Today there is about twenty three trillion dollars of equity market cap; but the debt has more than doubled to fifty six trillion dollars. The cost of servicing each dollar of debt has gone way down, and that's the trap that we have fallen into. Because we can spend the same amount of money and borrow more, we have done it at every level.

We can disagree about whether we are in a deflationary and deleveraging environment or whether or not we are in an inflationary environment; but it doesn't matter. In one environment you're going to get at best a three percent coupon return, unless you choose a leveraged investment. On the other hand, you're in a potentially rising rate environment in which bonds have the longest durations that they have ever had in forty years. This is probably the biggest fiduciary gap in the advising space right now: We haven't had to talk about bond risk. The bigger conversation is what role bonds should be playing. The only reason people don't have that discussion is they don't know what to say next. We need innovative solutions and we need to start looking at other tools. That's why we formed Larkin Point, to help people understand what other tools are out there.

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> ~ Ron Carson, CFP®
>
> Founder, Carson Institutional Alliance

CARSON: I started in this business in 1983, and people have always been chasing yield. Clients want it; advisors sell it. It could be disastrous; peoples'

lives could change where they can't even afford to provide the basics if their portfolio is cut to one-third.

POTTS: From a portfolio perspective, at Loring Ward we look at it a little bit differently. As we see it, each advisor is building a custom total return portfolio for their individual investors. We got some grief over the last ten years, because people say that longer durations are getting better return. We say: Don't take risk on the bond front, take it on the equity side. Buy emerging market value if you really want to go after returns. Many advisors will walk through a client's statement; they will break out the individual components, and maybe not put them all back together for that client. Great advisors can teach that they are reducing volatility by adding high quality fixed income, and their clients will understand it forever.

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KERN: It's a real challenge. There are many educated and experienced people who don't understand the portfolio context. People may be concerned about one fund because it's very volatile, but it serves a role in the overall portfolio. In a certain environment, that fund may complement other funds that are not doing well. That's a hard concept for even senior-level investment executives to understand. It's an ever-bigger challenge to convey that to the kind of people who were on the consumer panel today.

CARSON: The traditional investor, in their late fifties or sixties, is general relationship focused and doesn't want to focus on the minutiae. The next generation needs to be educated, because if we don't educate them, then we won't be able to service them. Even if we have their attention, they won't listen to us if they do not trust us.

KERN: One of the things that interests me is that the next generations – Gen X and Y – are used to drinking in information from a fire hose. I see how much stimulus my nineteen year old son is accustomed to as part of his daily life. There is a hunger for information and an ability to absorb a lot of stimulus. That makes me encouraged about our ability to educate them and communicate with them. Part of the challenge is engaging with them on their own terms.

> "Money is like a bar of soap; the more you touch it the less you have."
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POTTS: One of the coolest quotes I've given to my kids is this: Money is like a bar of soap; the more you touch it the less you have. On the panel today, we heard one of the participants say she looks at her account twice a day. So, on the one hand, you have a complex plan solving for a long-term liability; and, on the flip side, a

consumer looking twice a day at something that's likely not meant to be tampered with for another twenty to thirty years.

WINCHELL: That just reflects that she hasn't sat with an advisor who has a plan for her and her goals. But I want to get back to the fixed income topic. It goes deeper than the asset side. A rise in rates is going to have an adverse impact on people's home values and affect their life insurance dividend rates. There are many ways in which fixed-income risk exists in a portfolio, and as well on the liability side. A life insurance policy is well-funded and is initially a liability but becomes a great asset later on. How will that get affected? Getting back to the Millennials: If we can't educate the Boomers – the people that already have the problem – how are we going to educate the next group of people? Also, I think a trust gap is not necessarily the advisor's fault. It's the apparent rapacious attitude of investment banks that took clients to the cleaners. But I do think advisors have allowed themselves to become victims. We are in a noble business and we truly act as fiduciaries for other peoples' benefit.

WILL ROBO-SERVICES REPLACE TRADITIONAL ADVISORS?

CARSON: So Michael, how do you suggest we do that? We have two hundred thousand fewer financial advisors than we had fifteen years ago. The demand for advice and the number of Baby Boomers has skyrocketed. We are not bringing new advisors into the business, and I hear all the time that advisors say: "I don't do that; you can go to somebody else to get that done." Ninety-six percent of the Omaha panel said they would go through a comprehensive plan one time to get it right with a trusted advisor, if they really felt it was going to help them overcome this emotional reaction to switching strategies and not giving up on their plan. My concern is where is the capacity?

WINCHELL: People go to the Internet. I have had so many interns think that they can get every answer by Googling it. But that can result in bad equations. So it's about us building the right equations. We need to build engaging tools that people can digest in short, three-minutes bites as a maximum; that way they can get on a topic and realize there is more that they need. People are not going to go to the "old guy" that handled their dad's portfolio; they are going to go where they get information from today, which is the Internet.

CARSON: The non-human tools have the ability to replace us, definitely a decade from now if we don't address this. We are in a bite-sized world; we have two or three minutes to get a point across and we have to do it in a highly visually stimulating way. All of us have to do it; we have to all jump on this bandwagon or the whole industry is going to suffer.

"We are in a bite-sized world; we have two or three minutes to get a point across and we have to do it in a highly visually stimulating way."

~ Ron Carson, CFP®

Founder, Carson Institutional Alliance

KERN: I think about how it was to be an investor when I started. My first real investment job was in the late '80s; I was out of college but was starting to get closer to the investment side of business. Eighty percent of the work was about gathering the information and building spread sheets; proportionately less time was on analysis. People who could gather the information fast and efficiently had an advantage over everyone else, and if they could combine that with good judgment they were able to make money. Now, it's very easy to gather and normalize information. This leaves much more time for people to think about what the information means and to react to it faster. That judgment does not come out of a box, and it doesn't necessarily come out of a computer algorithm. It comes out of training and intelligence, and an ability to stay calm when everyone else is losing their heads. There is a lot that our clients can get without us; but a computer or algorithm cannot replace the judgment and experience to talk to a client about their budget, spending and emotions. But what I'm struggling with is how we draw people into the industry and teach them the softer side of what we do.

CARSON: I hope you are right, but I live in this constant paranoia. I'll use my flight training as an example: I always thought I needed a human on the other side to help me interpret the data and tell me whether it was safe to make a particular flight. But today it is so easy to fly my airplane because I have all these things telling me how high I am, and my speed, etc. – and the voice talking to me is so calm.

CLOSING STATEMENTS

SWIFT: Let's go to closing statements. What is the one thing you would really like the readers to take away from reading this transcript?

POTTS: I am hugely optimistic about the advisor business. I think great financial advisors are in the best business in the world. They're serving people in a meaningful way. They are putting their clients' interests first. They don't have their hands in anybody's pocket. They get to be paid well. They get to be in the enviable position of being a trusted advisor. I think the great advisors will have a long run and serve their clients beyond their clients' expectations.

> "I think the great advisors will have a long run and serve their clients beyond their clients' expectations."
>
> ~ Alex Potts, President & CEO
>
> Loring Ward Group, Inc.

CARSON: I agree. I am optimistic about our business. Though it's healthy to plan for the downside and plan for the worst, it's good to hope for the future. We have human capital shortages. We have less capacity. We have more demand. And we have the succession issue. Going forward it's going to be a huge competitive advantage to get the right people on board and keep them. I'm also a believer that you have to deliver a value proposition that is equal parts substance and sizzle. You need sizzle to attract the people and substance to keep them and add value to the overall relationship. A piece of advice from one of

my most successful clients was to “hire the best people you can, and get the heck out of their way.” That is what I have done and plan on continuing to do and to capitalize on that opportunity.

KERN: I really look forward to the Tiburon CEO Summit every year because it’s a reminder to me of how many deeply caring people and organizations are working to help investors solve their financial problems and achieve their financial goals. I like seeing that there is not one universal model – for instance, Ron’s approach is very different than Alex’s but they share some common underlying philosophies. I think what Michael and I do is different as well; there are some fundamental similarities but we approach what we do in a very different way. I come away from this summit with a lot of tangible ideas about how to be serving our clients.

WINCHELL: The business of advising is noble and has a great value proposition. Trying to enable a client to reach their goals through steady growth of a portfolio, protection against a downside, and meeting a well-defined set of objectives is our primary job. Important in this process is planning for our own succession, and I believe that stable AUM, because you’ve done that for your clients, is the best way to preserve value for the advisor looking to have somebody succeed to their business ultimately. That buyer wants to have a good value proposition knowing that they can pay for it, because that asset allocation isn’t going to result in AUM going down thirty percent. Serving our client goals is going to be self-serving, but in the right way.

Roundtable Participants

Ron Carson, CFP®
Founder and Chief Executive Officer
Carson Institutional Alliance
CarsonInstitutional.com

Ron Carson is founder and CEO of Carson Institutional Alliance, an investment management and operations platform for financial advisors serving affluent investors, and founder of Peak Advisor Alliance, a coaching program for financial advisors. With over 25 years of experience, Ron is a highly successful and respected advisor. Barron's has ranked Ron one of the nation's top advisors for the last seven years. Registered Rep magazine chose Ron as the number one independent advisor in the country for the fifth year in a row. Carson Institutional Advisory is the culmination of Ron Carson's years of leading one of the largest independent wealth advisory firms in the country, Carson Wealth Management Group.

Daniel Kern, CFA®
President and Chief Investment Officer
Advisor Partners
AdvisorPartners.com

Dan Kern is responsible for establishing and driving the overall company strategy and the investment philosophy and process for Advisor Partners, an investment advisory firm that provides a broad range of sophisticated investment solutions to a select group of independent advisors and financial institutions. Prior to joining Advisor Partners, he was Managing Director and Portfolio Manager for Charles Schwab Investment Management, and before that he was Managing Director and Principal for Montgomery Asset Management. He is a CFA Charterholder and a former President of the CFA Society of San Francisco.

Alex Potts
President and CEO
Loring Ward Group, Inc.
LoringWard.com

Alex Potts is the President and CEO of Loring Ward Group Inc. as well as President and CEO of the SA Funds – Investment Trust. Previously, he was the Chief Operating Officer of LWI Financial Inc. He has also served as Chief Executive Officer of RNP Advisory Services, Inc., a registered in-

vestment advisory firm. Potts started the SA Funds – Investment Trust. He also founded Loring Ward Securities Inc. (formerly Assante Capital Management Inc.). In addition, he served as Executive Vice President and General Manager of LWI Financial Inc. (formerly Assante Asset Management, Inc.). Potts earned a Bachelor of Science Degree in Economics from Santa Clara University. He also holds General Securities (Series 7), State Law (Series 63) and General Securities Principal (Series 24) licenses.

Marie Swift
President and CEO
Impact Communications, Inc.
ImpactCommunications.org

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. 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.

Michael Winchell
Chief Investment Officer
Larkin Point Investment Advisors, LLC
LarkinPoint.com

Michael Winchell is Chief Investment Officer and managing member of Larkin Point Investment Advisors LLC and is also managing member of Larkin Point Capital Investors LLC. Before founding Larkin Point, he served Mariner Investment Group from July 2008 through March 2012 as principal of Mariner VCL Asset Management, a global macro trading team focused on capturing the shifts in global business cycles through active asset and strategy allocation. Prior to joining Mariner, he served as managing partner of Hunter Partners LLC and Chief Operating Officer of Bear Wagner Specialists LLC from 1999 through 2007. Before joining Hunter, Michael was a Senior Managing Director and Chief Risk Officer of Bear Stearns & Co. He served as head of International Fixed Income Trading from 1995 through 1998, and served on the Risk, Funding and Credit Committees for Bear Stearns. In 1997, he was elected to the Bear Stearns' Board of Directors. He began his career in finance as an Economist at Merrill Lynch in 1983.

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Questions about this transcript may be directed to Al Martin, Director of Media Relations: (800) 974-7753 / ImpactMediaManager@ImpactCommunications.org