Industry scales value heights

Surveyed firms report that assets under management have grown by 30 per cent. Page 2
Involvement in a host of uncertainties: The US economy seems to have grown slowly, but questions marks hang over Europe and the rest of the world. Jobs are being created, but wages appear stagnant. The stock market did well in 2014, with the S&P 500 ris-
ing more than 15 per cent, but that was after indices of over-valuation.

What is in question? Recent evidence suggests that the best answer is to seek advice. While many investors, of course, do so. Others do not, or not enough. One reason for this is the complexity and weight of businesses they are investing in.

Fewer than three-quarters of last year’s listings featured new advisers. Those featured were not necessarily the most experienced, but they were the most successful in building an elite practice. In keeping with the current trend demands action, the question is whether clients consider the advice and managers say oil prices can

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Young advisers offer continuity in a shrinking industry

Financial advisers are ageing and many are considering retirement. But who will replace them? By Morgan M Davis

The next generation of advisers is coming to market, and they are bringing a new approach to the business.

The average adviser retires at about age 60, says Andrew Nehrbas, executive vice-president of Ameriprise's Financial Planning Network. Mr Nehrbas, who has founded a second franchise group, says, “Succession planning is not a focussed activity, but rather cash flow, cash management. You have to keep up with the changing dynamics of the greater firm business.”

Succession

It is crucial for firms to develop fresh talent, writes Morgan M Davis

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The next generation of advisers is coming to market, and they are bringing a new approach to the business.

“Succession is not a topic that most advisers want to talk about,” says Mr Nehrbas. “They think it is a problem for younger people, but it is not. You can’t afford to ignore it.”

Mr Nehrbas says firms, including Ameriprise, offer succession training to senior advisers and provide a mentoring program. “I want to help them become a training center for the industry,” he says.

Advisors trainees by first, but generally involve advising, advising, and working with different people. Training also allows branch managers to find new advisers and work with the next generation. New advisers are taught the “70/30” rule: “The new generation doesn’t want to work with an established firm.”

Mr Nehrbas says Ameriprise has a unique structure. “We don’t have a headquarters,” he says. “We have 500 offices, each of which is a branch.”

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## FT 400 Top Financial Advisers

### The final cut

We present the leading US professionals, listed by state, and provide the research methodology.

### FT 400 Top Financial Advisers

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<th>Name</th>
<th>Company</th>
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**OPPENHEIMER INTERNATIONAL GROWTH FUND**

Overall Morningstar Rating™ (Among 294 Foreign Large Growth Funds), Overriding a Class Y share for the 3- and 5-year periods ended 12/31/14 based on risk-adjusted performance.

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**Financial Times**

The Right Way to Invest
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<th>Name</th>
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*HNW* indicates High Net Worth, and **Ultra HNW** indicates Ultra High Net Worth.
In autumn 2014, the Financial Times contacted the largest US brokerage firms to solicit adviser practice and firm information on their top advisers across the US. By asking information in this manner, the FT was able to obtain verified data on assets under management and industry experience of each adviser. We asked for information on advisers with more than 15 years’ experience and that had more than $200m in assets under management.

The FT then invited qualifying advisers — a list which totaled just under 1,500 — to complete a short application which totalled just under management.

The criteria can be taken to have different meanings. For example:
- **Asset growth** — growing assets can be taken as a proxy for investment skills managing money and client trust
- **Years of experience** — indicates experience managing assets in different economic and interest-rate environments
- **Reputation** — provides evidence of past client disputes. A string of complaints could signal problems
- **Regulatory filings**
- **Client segments**
- **Practice growth** — indicates the ability to generate new business
- **Industry certifications (CFA, CFP etc.)** — demonstrates technical and industry knowledge and professional commitment to investment industry
- **Online accessibility** — illustrates commitment to providing investors with easy access and transparent contact information
- **Fair treatment** — provides evidence of past client disputes. A string of complaints could signal problems
- **Institutional**
- **High net worth (HNW)**
- **Ultra high net worth (UHNW)**

Methodology

In autumn 2014, the Financial Times contacted the largest US brokerage firms to solicit adviser practice and firm information on their top advisers across the US. By asking information in this manner, the FT was able to obtain verified data on assets under management and industry experience of each adviser. We asked for information on advisers with more than 15 years’ experience and that had more than $200m in assets under management.

The FT then invited qualifying advisers — a list which totaled just under 1,500 — to complete a short application which totalled just under management.

The criteria can be taken to have different meanings. For example:
- **Asset growth** — growing assets can be taken as a proxy for investment skills managing money and client trust
- **Years of experience** — indicates experience managing assets in different economic and interest-rate environments
- **Reputation** — provides evidence of past client disputes. A string of complaints could signal problems
- **Regulatory filings**
- **Client segments**
- **Practice growth** — indicates the ability to generate new business
- **Industry certifications (CFA, CFP etc.)** — demonstrates technical and industry knowledge and professional commitment to investment industry
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**Key trends scrutinised as US braces for lower growth**

**Economy**

Wage stagnation and headwinds abroad will take their toll, says **Aron Stanford**

But with 2014 enjoying upbeat data and market sentiment improving, some are saying they are waiting for longer based on market cap and earnings per share.

Sceptics are not deterred from betting on the continued expansion of passive funds and assets. 

John Horres of J.P. Morgan, a senior vice- chapel, Raymond James, says that he is “flabbergasted” by the continued expansion of passive funds and assets. 

“But I think we are seeing a trend towards more volatility, and that means more active managers will be needed,” he says.

**Smart beta**

Smart beta strategies have been growing in popularity for the past few years, and they are expected to continue growing.

**Liquid Alphas**

Advisors remain divided on the investment benefits, writes **Pete Orr**

Advisors have driven huge flows into liquid alpha strategies, which have raised questions about the product's popularity.

Liquid alphas deploy hedge fund-like strategies and typically exhibit lower growth and volatility than more volatile beta strategies, according to Morningstar data.

However, the data does show that advisors remain divided on the investment benefits, especially as it relates to liquidity.

**Search is on for volatility as flows slow**

**New focus on cyber security**

The SEC and Finra have announced they will scrutinise firms’ systems this year, writes **Laure Sitter**

The SEC’s Office of Compliance, Inspections and Examinations and the National Association of Securities Dealers, Inc. will be looking at new firms and those that have already been subject of investigations.

Mr Zolper says small attacks range from generic spam to sophisticated targeted emails from countries where regulatory standards are lower.

An advisor is crucial in reducing the attack of this email, but they should be aware of their firm’s security policies and procedures.

Mr Zolper recommends that advisors and their firms take the following steps:

- Monitor all incoming and outgoing emails.
- Use anti-virus and anti-malware software.
- Educate employees about phishing and malware.
- Limit access to sensitive information.
- Use secure file transfer protocols.
- Perform regular security audits and assessments.

Mr Zolper also recommends that firms have a plan in place for how to respond to a security breach.

In conclusion, a strong security policy and proper implementation are crucial for protecting firms from cyber threats.

**Active/Passive**

Sceptics are waiting for stronger performance records before committing, writes **Greg Shafar**

In spite of the growing popularity of smart beta strategies, some advisors remain skeptical.

“Smart beta is a term that is often used to describe strategies that seek to outperform passive indexes by using advanced analysis of asset pricing and portfolio construction,” Shafar writes.

Uncertainty surrounds the performance benefits of smart beta strategies, as well as their suitability for different investment horizons and risk tolerance levels.

Mr Shafar points out that smart beta strategies are not a one-size-fits-all solution.

“Choosing the right smart beta strategy depends on a variety of factors, including the investor’s risk tolerance, investment goals, and the specific market environment,” he says.

While some firms offer a wide range of smart beta strategies, others may only offer one or two.

Mr Shafar recommends that advisors carefully consider the potential benefits and risks of smart beta strategies before incorporating them into their clients’ portfolios.
Fixed income bargains become harder to find

**Social media** Sites are turning out to be rich sources of new business

Financial advisers are increasingly tapping into the potential of LinkedIn, Twitter and Facebook to reel in new clients and up their asset underwriting. More than 75 per cent of the advisers who landed spots on the Financial Times 400 reported using LinkedIn while 71 per cent are on Twitter. And those numbers are on the rise, say industry experts.

This is partly a result of clearer guidelines issued over the past few years by the Financial Industry Regulatory Authority and the US Securities and Exchange Commission on how financial advisers can use social media platforms. “More and more people are online using these channels,” says Linda Yank, vice-president of syndicated research at Cogent Reports. “It’s important for advisers to have a presence, so that they are able to . . . build their business.”

Advisers proposing for new investors can use LinkedIn to view their clients’ connections, search for individuals based on their interests and access anonymized reports, says Amy McManus, a president of Wells Fargo’s global financial advisors, who is in charge of syndicated research at the company. However, the rising US-dollar-valued advice should help clients’ savings and pensions components.

Conditions are ripe for active strategies in fixed income, says Tony Dong, senior fixed-income manager at Black-well Advisors, an affiliate of Bank of New York Mellon’s Pershing unit. Rising interest rates typically signal higher volatility. This allows experienced active managers to take advantage, he adds.

Traditional fixed income has taken a back seat as “fixed income products” for Bill Soto, Merrill Lynch. “These products are products that provide investors, for example, declining-interest stocks of financially solid firms that are not growing but returning significant capital gains,” he says. “Fixed income can be attractive and it is greatly overlooked.”

Mr Soto says, “It’s a good time to look in mortgages and bonds for a business, but it’s not a good time to buy long-term bonds.”

Fixed income bargains become harder to find

**Fixed income is in a bubble and is greatly overvalued; it’s not a good time to buy**

Fixed income is at the lowest end of investment grade, at 5½ in earnings. With competitive rates, Mr Princi says, “We think the Fed will be quite methodical in his career. That is partially because the earnings yield for the S&P 500 is more than desir- able that of the 10-year Treasury. He believes the US econ- omy will continue to strengthen, making this a con- tinuum environment for investors to take advantage. “This all comes from our macroeconomic data points,” Mr Princi says. “We think the Fed will be quite methodical with its moves.”

Internationally, Mr Princi prefers debt in developed European countries, and favors it through mutual funds or exchange-traded funds. He even finds European bonds more attractive than the US, despite the challenges abroad. Some experts say value in emerging markets India, Mexico and South Korea all have relatively strong economies with healthy sovereign debt and corporate bonds, according to George Rusnak, co-head of the global futures and interest rates research at the company. However, the rising US-dollar-valued advice should help clients’ savings and pension components.

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**Bonds** The Fed is expected to raise rates later this year, writes Chris Latham

The latest forecasts, however, show that the Federal Reserve is unlikely to raise rates. If the market continues to anticipate that rates will remain at near-zero levels, advisers can expect a rally in bond prices. But if the Fed decides to go higher, it could cause losses in bond prices. 

Inflation expectations are low, but some economists believe that could change. This could lead to an increase in bond yields, which would hurt advisers who are holding bonds. Advisers should be aware of this risk and advise clients accordingly.

Mr Latham says that advisers should consider using social media to market their bonds. “Social media advertising is an important tool for advisers to use in this environment,” he says. “Advisers should consider using social media to market their bonds and to communicate with their clients.”

**The FT 400 Top Financial Advisers**

Financial planners who are on the FT 400 list will benefit from this article. They can use it to communicate with their clients and to market their services. This article will help them understand the current state of the economy and the potential for bond prices to increase. They can use it to advise their clients on how to invest in bonds.

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