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PAM
PRIVATE ASSET MANAGEMENT

IN THIS ISSUE

TOP NEWS STORIES

SEC MAY CLEAR SFOS TO PROVIDE ADVISORY SERVICES TO IN-LAWS

SFOs have traditionally been exempt from registering as investment advisors if they fit in a family office definition

TURN TO P4

FATCA MAY TRIGGER EXPATS TO GIVE UP CITIZENSHIP

A poll conducted by deVere Group indicated that those who are tempted to give up their citizenship has increased by 11%

TURN TO P6

+ PLUS

BREAKFAST BRIEFING

At a recent *PAM* breakfast briefing, a panel of industry experts discussed the growing trend of impact investing and the future of the space

TURN TO P9

12

A BETTER WAY TO INVEST?

Increased chatter about robo-advisors is creating questions about whether they will change the industry

COMMENT

15

Bringing fluidity to illiquid assets

Phil Tobin & Eric Kinaitis, of American Endowment Foundations, discuss donor advised funds

FEATURE

16

Increased options

Professionals say that adding options to a portfolio can help high-net-worth clients mitigate risk

Rewards and responsibilities of great wealth

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FROM THE EDITOR

As with any industry, the only constant in private wealth is change – clients' needs, wants and investment attitudes fluctuate along with the market. In part due to those shifts, the space is evolving along with those it serves.

A new trend – robo-advisors, which manage assets through algorithms, without direct access to an actual advisor – has many questioning whether it will change the industry. This new technology provides fee transparency and mobile access that clients have long been clamoring for, but what does it mean for wealth managers that have been serving this demographic?

In this issue, *PAM* talks to experts about the changes that the industry has seen due to the rise in robo-advisors, as well as how they could affect the future.

This month, we also outline some of the regulatory changes happening in the space, including the Securities and Exchange Commission's potentially shifting attitude towards single-family offices' advising in-laws, and how an Internal Revenue Service disclosure program is spurring action among affluent individuals.

As always, you can keep up with these trends and rule changes at *pammagazine.com*.

Kelsey Butler

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Have a topic you'd like to see discussed at an upcoming breakfast briefing? E-mail me at k.butler@pammagazine.com.

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EXPANSION

JDJ Family Office Services spins off from Rothstein Kass

The founders of JDJ Resources Corporation have left Rothstein Kass Family Office Group to relaunch an independent firm, taking with them their 21-person staff and existing client base.

Boston-based JDJ Family Office Services was founded in 2001 as JDJ Resources Corporation and merged with Rothstein Kass just 20 months ago in 2012.

"We are thrilled to be independent again," James Kittler, a partner at JDJ Family Office Services, told *PAM*. "This change allows us the ability to provide the levels of service that are expected and required in the family office industry."

The move comes after KPMG– the audit, tax and advisory firm – recently acquired Rothstein.

"The Rothstein merger with KPMG gave us the opportunity to re-launch as an independent firm," said Kittler.

Kittler said a smaller firm will allow his team more control over their decisions, without having to worry about liability or exposure.

"The people dealing with clients are the ones also making the decisions now," he said.

Kittler said other benefits to being independent include flexibility and timeliness.

"When you work for a large firm, whatever it is, there are certain rules and regulations that prevent us from doing work as quickly," he said, and added that the newly independent firm will not fall under public accounting rules and regulations.

Kittler said the downsides of independence include losing the resources and knowledge base of a large firm. Still, Kittler said he believes a smaller firm is more conducive to the needs of his high-net-worth clients, who he said want a sustained personal relationship with their financial management team.

"Our clients want to know the person on the other end of the phone and want that person to understand their family dynamics and other details," he said. "The larger the firm gets, the less contact there is with clients."

JDJ Family Office Services provides personal financial and administrative services to high-net-worth families and individuals.

REGULATION

SEC may clear SFOs to provide advisory services to in-laws

The Securities and Exchange Commission may be willing to expand who can be served by single-family offices (SFOs) while avoiding registration under the Investment Advisers Act, according to two industry experts.

In a recent stop press, David Guin and Mark Tice of law firm Withers Bergman LLP wrote that the SEC on July 1, 2014, issued two notices of applications for exemptive relief submitted by multi-generational SFOs which provide advice to in-laws. Guin and Tice wrote that these notices "signify the SEC's willingness to expand the class of persons that may be served" by these family offices, all while steering clear of registration under the Investment Advisers Act.

SFOs have traditionally been exempt from registering as investment advisors if they fit in a family office definition.

At a recent *PAM* breakfast briefing, Scott Moss of law firm Lowenstein Sandler LLP said this definition states that a family office can only advise family clients, must be fully owned and controlled by family members and cannot be held to the public as an investment advisor. A family office can advise those with a common ancestor up to 10 generations out, including spouses or spousal equivalents, in addition to trusts, other family structures and key employees, Moss noted.

This definition is meant to exclude the siblings of spouses or spousal equivalents or the in-laws of a lineal descendant.

Guin and Tice wrote that these recent notices show that the SEC will give exemptive relief, clearing the way for SFOs to provide investment advisory services to in-laws unless a hearing is issued, subject to certain criteria.

This criteria states that the SFO must continue to be wholly-owned only by family clients and exclusively controlled by one or more family members, the in-laws must own less than 25% of the assets for which the family office provides advisory services and only provide advisory services to those family members and in-laws specifically named in the application for relief.

Finally, the SFO must comply with all other requirements of the family office rule. ■

MERGER

Two Boston RIAs set to merge

Registered investment advisor Long Wharf Investors (LWI) has merged into Focus Financial Partners LLC's Boston-based partner firm, The Colony Group.

LWI principals Rod Macdonald and John Keller will join the Colony team as part of the deal.

Boston-based LWI will add about $200m in client assets, bringing Colony's total AUM to about $3.75bn.

"Long Wharf was founded twenty years ago to provide our clients

ON THE MOVE

- Deutsche Asset & Wealth Management has made several recent hires. J.J. Wilczewski was hired as co-head of the Global Client Group, Americas and will focus on serving institutional investors, overseeing client coverage and distribution in the Americas region. Deepak Khanna was hired as head of US Large Cap Value Equities and will be responsible for managing investment strategies focused on US large cap value stocks. Thomas Clarke was hired as head of Lending & Deposit Products, Americas. In this role, Clarke will lead DeAWM's Lending & Deposit Product business across the Americas region, with overall responsibility for strategy, product development and client service. Matthew Coombe and Patrick Menerey have joined the Los Angeles office as a director and private banker and as a vice president and private banker, respectively.

- Helena Jonassen has joined Evercore Wealth Management as a managing director and wealth advisor. She brings 30 years of wealth management experience to her new position. Jonassen will be based in New York and will report to Chris Zander, the firm's chief wealth advisory officer.

- Convergent Wealth Advisors has hired Edmund Muskie Jr. as a managing director. Muskie will be based in Washington D.C. and will be responsible for providing wealth management advice to ultra-high net worth clients, as well as philanthropic institutions and other organizations. Muskie was previously senior vice president and private client advisor at U.S. Trust.

- Tolleson Private Wealth Management has hired Dotti Reeder and Kal Grant - to serve as managing directors on its client advisory team. In their new roles, Reeder and Grant will provide a wide range of wealth management services alongside existing members of the firm.

- New York-based wealth management firm Pioneer Wealth Partners has hired prime brokerage veteran Brett Langbert as managing director to head its new Florida office. In his new role, Langbert will be responsible for leading business development. Langbert was previously a managing director at Israel A. Englander & Co.

- Bessemer Trust has appointed Ilka Gregory as principal and senior wealth advisor, responsible for introducing ultra-high-net-worth Northeast families to Bessemer's services. Gregory will be based in New York and will report to Erica Gies, co-head of the Northeast United States region. Gregory was previously managing director at Third Avenue Management.

- Brian Burns has been promoted to president of InvestEdge. The company's founders, Bob Stewart and Roland Collins will retain their respective titles as CEO and CTO. Prior to joining InvestEdge in 2009, Burns was the CEO of Mutual Funds Direct.

- Richard Gill has left his managing director position at Focus Financial Partners' after seven years to join AMG Wealth Partners, where he will be responsible for helping identify leading boutique wealth advisory firms for possible investments. This is Focus' second executive departure in two months.

- Univest Bank and Trust Co. promoted Kevin Norris to president of its Wealth Management Division, replacing Kenneth Hochstetler. Hochstetler announced his resignation in June to return to his hometown of Goshen, IN, and lead Everence as president and CEO. Univest also promoted Joseph Blair to senior vice president and senior financial advisor responsible for wealth advisory and planning services.

- First American Trust appointed Mark Monaco to serve as vice president, wealth management and Keegan Burke as vice president, wealth management advisor for the San Diego, CA, region. Monaco will be responsible for managing client accounts and supporting the expansion of other sales channels. Burke will advise high-net-worth clients in investment management, wealth advisory and trust planning. ■

with boutique wealth management services and proprietary investment strategies," Macdonald said. "When we were introduced to Colony by Focus, we immediately recognized that they had a similar client service philosophy, and there was a natural fit between the two firms. With Colony, we could achieve our objectives of joining a larger firm with many professionals, gaining access to vast resources, and better protecting our clients by accessing a built-in succession solution, all without compromising our core values and client-first philosophy. We know this combination with Colony will be seamless for our clients but, at the same time, will enhance the support and depth of expertise available to us in serving those clients."

Macdonald, a CFP, was a practicing business and commercial real estate attorney in Boston prior to joining LWI. Keller co-founded LWI and has more than 25 years of industry experience. He has previously worked at Fleet Investment Advisors and Bank of New England.

The LWI deal is Colony's third transaction in the last two years, after acquiring Mintz Levin Financial Advisors in Boston in 2012 and Prosper Advisors in New York in 2013.

Colony, which joined Focus in

October 2011, is an independent wealth management company providing financial counseling, tax, estate, retirement and philanthropic planning services to high-net-worth individuals and families. Focus is an international partnership of independent fiduciary wealth management firms.

FATCA

FATCA may trigger expats to give up citizenship

A study shows that the Foreign Account Tax Compliance Act may cause expatriates to give up their US citizenship.

A poll conducted by deVere Group indicated that those who are tempted to give up their citizenship has increased by 11%.

Additionally, 79% of the expats surveyed said they had 'actively considered,' 'are thinking about' or 'have explored the options of renouncing their US passports to FATCA', which went into effect at the start of this month. Last year, 68% of the same survey pool said the same.

Nigel Green, deVere Group's founder and chief executive, said: "The 11% jump in the number of Americans who are tempted to sever official ties with the United States highlights how the true scope of FATCA's adverse effects is now really hitting US citizens who live and/or work overseas.

"In this latest survey significantly more respondents flagged up specific problems, such as not being able to open bank accounts in their countries of residence, or having existing ones shut down by banks, or the costs and lengthy processes of complying with FATCA, amongst other problems. This could probably explain the increase. Some told us that they felt they were now under suspicion by the IRS, even though there was no question of any wrongdoing or having any taxes owing.

"It seems that the burden of FATCA is becoming more 'real' and one way to avoid the negative effects of this highly controversial law is to relinquish citizenship."

According to figures from the US Treasury Department, passport relinquishments were up by 220% in 2013, compared with the year prior.

The deVere Group is an international financial consultancy firm. ■

INVESTMENTS

Global alternative assets continue to rise

A recent survey shows that total global alternative assets under management now totals $5.7trn.

The survey, produced by Towers Watson and the Financial Times, also shows that total assets managed by the top 100 alternative investment managers globally hit $3.3trn in 2013, up from $3.1trn in 2012.

The Global Alternatives Survey looked at seven asset classes and seven investor types, and found that of the top 100 alternative investment managers and real estate managers have the largest share of assets, followed by private equity fund managers, hedge funds, private equity funds of funds, funds of hedge funds, infrastructure, and commodities.

Brad Morrow, Towers Watson's head of manager research in the Americas, said: "For almost all of the past 11 years of this research, we have seen increasing allocations to alternative assets by a wide range of investors. Not only has the appeal of alternative assets broadened to include many more insurers and sovereign wealth funds, but the range of alternative assets has also increased beyond the likes of hedge funds and infrastructure to include real assets, illiquid credit and commodities."

For the top 100 managers, North America is the largest destination for the majority of alternative capital. The only major exception is infrastructure, which has more capital invested in Europe. Overall, 45% of alternative assets are invested in North America, 38% in Europe, 7% in Asia Pacific and 10% in other parts of the world.

Morrow said the move away from solely relying on equities as the main growth asset and putting an increased focus on alternative assets continued throughout the recent financial crisis, and will likely continue in the future.

"We think the effort to diversify in this way is worthwhile, but investors need to be cautious about choosing the best and most efficient vehicles, not forgetting the increasing number of cheaper and lower governance routes for improving investment efficiency, such as using smart beta, notably in the alternatives space," said Morrow.

Towers Watson offers consulting, technology and solutions to help organizations improve performance through effective people, risk and financial management.

ESTATE PLANNING

UBS: HNWIs must discuss inheritance early

A new study reveals that though $40trn of personal wealth is expected to change hands by 2053, the topic of inheritance is somewhat taboo among wealthy American families.

The UBS Investor Watch report, released by UBS Wealth Management Americas, surveyed over 2,800 affluent US investors to find that 46% of benefactors have not discussed inheritance plans with their children.

The study suggested both benefactors and their children are reluctant to discuss inheritance. For benefactors, the top three reasons cited for not wanting to discuss inheritance are that it doesn't feel like a pressing issue (43%), they don't want their offspring to count on the inheritance (32%), and they don't want their children to feel entitled to wealth (27%). The potential future heirs reported their reasons for not discussing inheritance as their families don't talk openly about financial issues (46%), it does not feel like a pressing issue (31%), and they don't want to appear greedy (23%).

"Inheritance can be a complex and sensitive issue for both sides, parents don't want to talk about mortality and children don't want to appear greedy by bringing it up," said Paula Polito, a client strategy officer at UBS Wealth Management Americas.

Although often uncomfortable, the report suggested communication and planning can contribute to a smoother wealth transfer process and reduce the chance of conflict among surviving family members. Heirs who knew a detailed inheritance plan reported being more satisfied with the inheritance process. Further, heirs who were not aware of the inheritance plan were more than twice as likely (27% vs. 12%) to report having disagreements with family about the inheritance.

The report said conversations surrounding inheritance are even more imperative within blended families, who cited disagreements among heirs 12% higher than nuclear families and being satisfied with the inheritance process 27% lesser than nuclear families.

Sensitive issues, such as who will inherit a family home, should be resolved prior to a parent's passing, suggests the report. In cases where there is an unresolved issue, disagreements about the inheritance distribution jumps from 11% to 82%.

Only one in three heirs reported they wish their parents had handled inheritance differently, but nearly three quarters (72%) revealed they plan to deviate from their parents' methods when planning their own wills.

The main changes cited include keeping their will updated (47%), disclosing the whereabouts of all financial accounts (43%), taking steps to minimize taxes on their future heirs (34%), proactively discussing wealth transfer plans openly with heirs (34%) and planning ahead before the onset of aging or mental capacity issues (29%).

"Each generation feels like they know more than the one that preceded them, so it is natural that heirs have different ideas about inheritance than their parents," said Sameer Aurora, the head of investor insights for UBS Wealth Management Americas.

WEALTH MANAGEMENT CALENDAR

AUGUST 17-20
Get Connected 2014
Keystone, Colorado
Visit www.broadridge.com

SEPTEMBER 9-11
Bob Veres' Insider Forum
Hilton Anatole, Dallas, Texas
Visit www.insidersforum.com

SEPTEMBER 15-16
FIBA Wealth Management Forum
JW Marriot Marquis Hotel, Miami, Florida
Visit www.fibawealthmanagement.com

SEPTEMBER 17
The East Coast Family Office & Wealth Management Conference
The Union League Club, NYC, New York
Visit www.nyc-wealth.com

SEPTEMBER 17
Wealth Transition: How to Retain Your Clients as Generations Pass
NYSSA Conference Center, NYC, New York
Visit www.nyssa.org

SEPTEMBER 17-18
Family Office Leadership Summit
Marriott Grosvenor Square, London
Visit www.familyofficesummit.com

SEPTEMBER 20-22
The FPA Business and Education Conference
Washington State Convention Center, Seattle, Washington
Visit www.fpa-be.org

SEPTEMBER 22-23
FOX Private Family Trust Company Symposium
Chicago, Illinois
Visit www.familyoffice.com

SEPTEMBER 30-OCTOBER 1
Creating an Exceptional Family Office
Hyatt Regency, Boston, Massachusetts
Visit www.fa-mag.com

OCTOBER 8-14
The TABOR Family Office Conference
Four Seasons Resort, Scottsdale, Arizona
Visit www.taborcapital.com

OCTOBER 27-29
Private Wealth Investing Summit: Harvesting the Returns
Napa Valley Marriott Hotel and Spa, Napa, California
Visit www.opalgroup.net

OCTOBER 28-30
FOX Fall Forum
Chicago, Illinois
Visit www.familyoffice.com

NOVEMBER 19-20
Private Banking Latin America 2014
Four Seasons Hotel, Miami, Florida
Visit www.terrapinn.com

"That said, they demonstrate stronger self-awareness as they trend towards greater transparency with their own potential heirs and planning for inheritance earlier. They don't want to be caught off-guard or leave their own children in a state of uncertainty."

ACQUISITION

Boston Private Bank to acquire Banyan Partners

Boston Private Bank & Trust Company, the wealth management, trust and private banking arm of Boston Private Financial Holdings LLC (BPFH), will acquire all the assets of registered investment advisory firm Banyan Partners LLC.

Boston Private Bank will establish a new subsidiary that will combine its existing wealth management business with that of Banyan. The deal, which will add Banyan's estimated $4.3bn in client assets, is expected to close in the fourth quarter of this year.

Clayton Deutsch, CEO and president of BPFH said: "The combined operation will have approximately $9bn in client assets under management and advisement, making it one of the leading wealth management and investment advisory companies in the US. BPFH's total client assets in its wealth management businesses (including trust) are expected to expand to approximately $30bn of total client assets. On a pro forma basis, the addition of Banyan is expected to result in an increase in the consolidated, non-spread based revenue to approximately 45% of total revenue, significantly advancing the company towards its stated aim of creating a more fee-weighted revenue stream."

Boston Private will pay about $60m in cash and stock under the terms, and Banyan will have the chance to receive additional consideration over a two-year earn-out period.

Upon the deal closing, Peter Raimondi, Banyan Partners' founder and CEO, will become CEO of the new wealth management company and key members of both organizations' management teams will assume senior roles in the new company. Boston Private Bank's executive vice president, John Sullivan, will be the new entity's Chief Business Development Officer and R. Thomas Manning, Banyan Partner's chief investment officer, will become CIO.

PEOPLE MOVE

Citi adds director and wealth planner

Natalia Murphy has joined Citi Trust as a director and wealth planner, *PAM* has exclusively learned.

A Citi Private Bank spokesperson confirmed that Murphy will work with the firm's ultra-high-net-worth private bankers in New York and report to Adam von Poblitz, head of estate planning, Citi Private Bank.

Previously, Murphy was senior counsel in the individual clients department at Day Pitney LLP, where she focused on estate planning for US and international clients. Additionally, she advised clients on wealth management structures that emphasize tax-efficiency, retention of family holdings for multiple generations, and protection of assets from potential creditors, litigation and claims on divorce. Murphy also advised clients regarding pre-immigration and expatriation tax planning, as well as US tax compliance regarding foreign assets and income.

Citi Private Bank advises wealthy individuals and families and offers client products and services covering capital markets, managed investments, portfolio management, trust and estate planning, investment finance, banking and art, aircraft and sports advisory and finance.

COMPLIANCE

Changes to IRS disclosure program spur action

The Internal Revenue Service has made changes to its Offshore Compliance Programs: modifying the 2012 Offshore Voluntary Disclosure Program (OVDP) and expanding its offshore-related Streamlined Filing Compliance Procedures.

The programs were meant to encourage those with unreported financial assets outside of the US to comply with tax laws.

The primary changes include more stringent requirements and potentially higher penalties applying to taxpayers participating in the OVDP and the expansion of the Streamlined Filing Program (SFP) includes taxpayers living in the US and ease of requirements for participation, according to a recent article penned by EisnerAmper's Cristina Wolff, Brent Lipschultz and Hal Adrion.

Under the new programs, taxpayers whose actions were not 'willful', meaning they did not purposely evade taxes, have increased flexibility in avoiding penalties.

The current OVDP incorporates various changes, including requiring taxpayers applying to the program to provide more information, eliminating the reduced penalty percentage option, since those taxpayers deemed non-willful would not be involved with the program and the requirement of the submission of all account statements and the payment of the offshore penalty at the time of the application. Additionally, the offshore penalty percentage will jump from 27.5% to 50% if "before the taxpayer's OVDP pre-clearance request is submitted, it becomes public that a financial institution where the taxpayer holds an account or another party facilitating the taxpayer's offshore

BREAKFAST BRIEFING

What the affluent and their advisors should know about socially responsible investing

At a recent *PAM* breakfast briefing, a panel of industry experts discussed the growing trend of impact investing and the future of the space.

The panel included Elliot Berger of Arabella Advisors, Brinda Ganguly of The Rockefeller Foundation, Margaret Moore of Goldman Sachs, Mackenzie Colgan of ImpactAsssets and Stuart Williams of Endobility.

Moore says: "When we look across our client base at Goldman, we see investors taking a number of different approaches to social impact investing, whether it is through more traditional socially responsible investing, on the Environmental, Social and Governance (ESG) side, or increasingly through demand for impact investing strategies."

"We really think about double bottom line returns. We target risk adjusted returns, so returns that reflect the risk that we are taking whether it's a debt investment or an equity investment, as well as a demonstrable social impact."

Berger stated that though these types of investments can fall under various other terms including socially responsible investing, ESG, value investing and others, when it comes to impact investing, these investments "are a balance between impact and financial return and there is a healthy, substantial diversity about the weighting of those two objectives".

Colgan emphasized these investments are not the same as philanthropy, which is not focused on market-rate returns.

"These theories are vastly different. There is a thread throughout both, which is values, that essentially philanthropy and impact investing is a way for individuals to use their assets to do good, but they are vastly different," she said.

She noted that the trend is expected to continue to increase in popularity, with $36bn sitting in impact investments to date. When it is expanded to include ESG and SRI, the number is closer to $13trn, she said.

When asked what things investors should look for when becoming involved in impact investing, Ganguly said: "In many ways, making an impact investment is similar to making a regular investment. You're looking for a good management team with a strong business model, investment thesis, solid operations, good financials, projections that make sense and a clear market opportunity.

"All of that remains the same. There are a couple of things that are different about this market, however. One: As an investor, you need to be very clear about your financial targets and social objectives . Impact investments come in different shapes and sizes and finding a management team where you are fully aligned – in terms of your expectations and what they can deliver – is really important.

"Two: Co-investors in this space also come in many shapes and sizes. As an impact investor, we co-invest with banks, foundations, development finance institutions, high net worth individuals – all with slightly different mandates. Understanding your co-investors' objectives and motivations, and how they are likely to respond when faced with a difficult decision, is important.

"Three: This is a pretty nascent space. It is hard to find information, including information that allows you to figure out 'what is market'. So sometimes you have to be creative about finding data and structuring deals."

Moore added: "I think we're at an exciting point in the market. We're certainly past the pioneering stage but overall, the field is still relatively nascent." ■

arrangement is under investigation by the IRS or Department of Justice," according to EisnerAmper.

Those taxpayers with a so-called 'willful non-compliance situation' whose undisclosed accounts are with certain foreign financial institutions must take action by August 3, 2014, to qualify for the 27.5% penalty. These institutions, as of June 20, 2014, include UBS AG, Credit Suisse AG, Credit Suisse Fides, and Clariden Leu Ltd., Wegelin & Co., Liechtensteinische Landesbank AG, Zurcher Kantonalbank, Swisspartners Investment Network AG, Swisspartners Wealth Management AG, Swisspartners Insurance Company SPC Ltd. and Swisspartners Versicherung AG.

Lipschultz, partner in EisnerAmper's International Personal Wealth Advisory Practice Group, told *PAM* that "banks are being very proactive" in sending letters to US persons with foreign accounts requesting certification of US tax compliance and recommending entrance into the IRS OVDP program if they have not complied with US tax reporting. Lipschultz recommended that if a US taxpayer has an account with one of the listed institutions posted on the IRS website or believes that the IRS is investigating a foreign institution where money is held, taxpayer should seek counsel immediately and consider entering into OVDP before August 4 to take advantage of the reduced 27.5% penalty, otherwise the penalty to enter the program increases to 50%.

He added there is strong momentum surrounding the implementation of FATCA by most foreign governments, so it is important for US citizens with foreign accounts to act immediately and get into compliance. ■

ASK THE EXPERTS

In this feature, subscribers and readers of PAM can write in about questions or problems plaguing their wealth management practices. In return, they will receive practical advice from top experts. To submit a question, email managing editor Kelsey Butler at k.butler@pageantmedia.com.

Q What are some guidelines that families and their advisors should follow to manage the risks associated with their valuable collections, including wine, art and jewelry?

A Mary Boyd, division president, ACE Private Risk Services

Recent record-setting auction sales, including $24m for the largest flawless blue diamond ever sold and $2.695m for a 1923 Patek Phillippe watch, have served to remind high-net-worth individuals and families of the investment value of their jewelry, fine art, wine and other collectibles. Yet, these individuals and their advisors too often do not assess the risks associated with their prized possessions as diligently as their financial investment portfolios. Financial advisors today are well-positioned to remind wealthy families of the importance of implementing comprehensive insurance, loss prevention and risk management programs to protect their valuable collections.

Specific measures they can encourage clients to take are as follows:

First, families and their financial advisors should assemble a qualified team of experts to assist with documenting, valuing, insuring and protecting their valuable collections. The team should include an independent insurance agent or broker who has a well-defined process for assessing personal risks and access to carriers that specialize in serving HNW clients. These carriers often have risk consultants who can help families implement key loss prevention strategies, including an updated inventory of property, evacuation planning for precious collections as well as family members, background screening of domestic staff and contractors to help prevent theft, and backup power supplies for environmental controls and security systems. An estate planner, estate and tax attorneys and a CPA should also be involved in developing a sound long-term strategy for a valuable collection.

Along with having the right team of experts, having a robust process for documenting and tracking the constantly changing value of a collection serves as a foundation for a risk management plan. Proper documentation typically involves photo or video records, storage of purchase receipts and, in the case of highly valuable items, expert appraisals, proofs of title and provenance and records of any restoration work. An accurate, up-to-date appraisal is critical for almost every decision made with valuable collections. Appraisal industry associations, such as the American Society of Appraisers, Appraisers Association of America and International Society of Appraisers, can provide guidance on finding a qualified appraiser for each type of valuable item.

To guard against financial loss because of damage to or theft of valuables, families should consider the added security of a valuables insurance policy. But many do not. A study commissioned by ACE found that nearly 40% of wealthy collectors did not have all of their precious items insured with a valuables policy. A valuables policy allows the family to declare the value of each piece, or group of pieces, on the policy. It provides coverage up to the stated limit and applies to a broad array of risks, including those potentially excluded by some homeowners' insurance policies, such as flood. When relying only on homeowners insurance to protect valuables, there are often specific sub-limits of coverage that can leave the individual underinsured.

The best valuables policies will also guard against price fluctuations by providing coverage for the market value of an item at the time just prior to loss up to 50% more than the value listed on the policy. A valuables policy also provides the ability to cover groups of items, such as a wine or art collection, on a blanket basis in which an overall coverage amount is set for the group. This approach makes the overall policy easier to manage.

Over the next 30 years, as much as $27trn of family wealth will be transferred from Baby Boomers to their children and grandchildren. That inheritance will include a great deal of valuable items. It is never too early for advisors to help clients begin planning and discussing the various options and documentation requirements for turning over ownership. If clients are planning on leaving assets in a will or trust, donating pieces to a museum or writing an estate planning letter, they should seek help from professionals with experience dealing with these assets and their unique tax and financial opportunities and consequences.

Finally, in every wealth planning consultation, families should devote sufficient time to discuss their valuable collections. Families may not consider themselves to be collectors, but anyone who owns jewelry, watches, memorabilia, antique furniture or other luxury items must ensure those valuable items are properly accounted for and protected.

By ensuring that clients understand the unique set of risks associated with valuable collections, advisors can help wealthy families minimize risk and capitalize on opportunities in this increasingly important asset class. ■

Based in Basking Ridge, NJ, Mary Boyd is responsible for developing and executing near and long-term strategic plans and managing the day-to-day operations of ACE Private Risk Services. She has nearly 20 years of experience in the insurance industry, including more than 13 years in the high-net-worth personal insurance market.

Q&A

Leveraging ‘relationship capital’ for increased success

Josh Mait, chief marketing officer, Relationship Science LLC

Q What benefit can wealth advisors gain from properly leveraging their first and second-hand contacts?

A Wealth advisors tend to have strong and influential first and second-degree contacts. By successfully leveraging these contacts and actively utilizing their relationship capital, advisors can ultimately increase their client base and AUM.

Q What is the biggest mistake advisors make when it comes to leveraging their business connections?

A Most advisors don’t really understand the depths of their relationship capital or how to access it. Advisors rarely ask their close connections to introduce them to second-hand contacts when building relationships. These untapped reserves in relationship capital mean they are not using their contacts to their full potential. The biggest advantage in asking for an introduction is that it allows for a more organic initial conversation, leading to a long-lasting relationship.

Q How should advisors approach a situation when they need an introduction from an existing business connection?

A The first step in establishing a relationship is to do your homework – understand how you relate to the organization or individual you’re trying to reach. It’s critical to do your research on how to specifically connect with them for a warm, mutually beneficial meeting. In an age of social media and big data, it’s easier than ever to connect with others, but this actually means that it’s harder to establish a real relationship. Data-driven platforms such as Relationship Science (RelSci) can help with this as it separates the glut of meaningless social media invites with the real, personal connections that can be used to drive businesses forward. In other words, don’t spam. Pick up a phone or grab a cup of coffee with your contacts to really leverage your relationships.

Q How can advisors make better use of their Rolodexes, be they digital or physical?

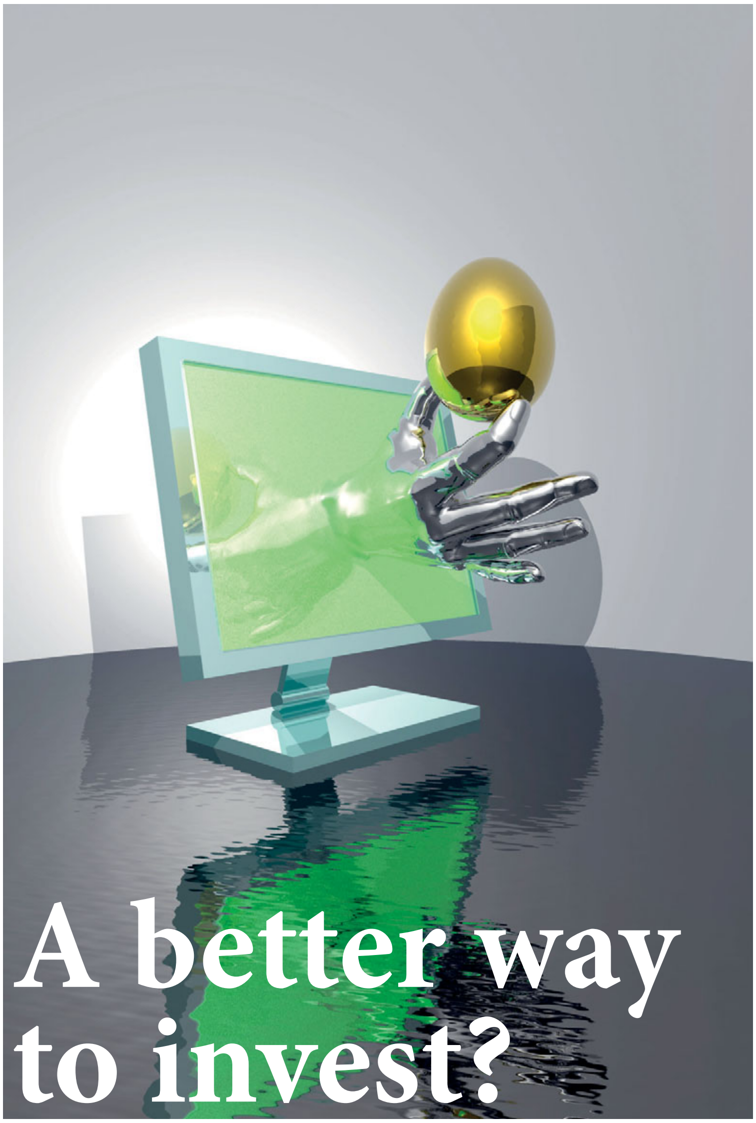
A Rolodexes have always been extremely important to wealth advisors. But most people don’t look into the web of potential contacts within their Rolodex. For wealth advisors, this can mean endless possible new clients and valued professional relationships. In order to tap into this network, advisors should always stay updated on what’s happening professionally within their Rolodex. New jobs or board memberships for your first-hand connections mean an ever expanding web of networks and contacts that you can leverage for success. Some of the best advice I can give is to be aware of how your personal or business connections link you to the wider world of influential decision-makers. Tools such as RelSci, customer relationship management (CRM) and social media outlets can assist with this, but it’s important to never abandon traditional communication. Digital platforms can certainly help us stay connected and updated, but it’s face-to-face interaction that permanently cements relationships.

> THE BIGGEST ADVANTAGE IN ASKING FOR AN INTRODUCTION IS THAT IT ALLOWS FOR A MORE ORGANIC INITIAL CONVERSATION, LEADING TO A LONG-LASTING RELATIONSHIP

Q Are there trends that you are seeing in the private wealth space that advisors should be aware of?

A The biggest trend in the private wealth space seems to be that advisors are increasingly looking to leverage their contacts because they now have access to tools such as CRMs and social media. Advisors that work with high-net-worth individuals have powerful relationships through their influential client base. A data-driven and digital platform like RelSci can now allow them to really understand their network and learn how to strategically use it to gain additional clientele and generate business. Crain’s New York Business recently teamed up with RelSci on the list of The 200 Most Connected New Yorkers. The most interesting finding from this list highlights how important these individuals’ relationship capital has been in their continued success. To stay ahead of the curve in the competitive private wealth space, advisors cannot shy away from building stronger relationships with their clients and asking for organic introductions to the connections that lie within their network. ■

Josh Mait is chief marketing officer at Relationship Science (RelSci) – a New York-based data-driven business development tool that helps give organizations a competitive advantage through relationship capital



A better way to invest?

Increased chatter about robo-advisors is creating questions about whether they will change the industry

BY CHRIS MATTHEWS

"A watershed moment for individual investors and for the market. A radical transformation took place and a flood of new investors began entering the markets and changing the landscape forever." Reflecting on the discount brokerage and 24-hour quotation services he launched in 1975, the words of pioneering businessman Charles Schwarb could quite easily be referring to the innovation sweeping the investment industry today – the robo-advisor.

Just like Schwarb and other de-regulation trailblazers in the 1970s, the so called robo-advisors are attempting to transform the investment terrain once again with their digitally-driven, low-fee investing platforms.

Technology is infiltrating all facets of society and for millions, business practices are increasingly being performed online and on the move. This shift in behavior is seeping through to the asset management industry with the traditional financial advisor now jostling for clients with automated algorithms.

Face-to-face client meetings are on the decline. Over 80% of financial advisors say they meet with clients on no more than two occasions a year, according to researchers Cerulli Associates, and with US adults spending 11 hours a day with some form of electronic media, it is evident that the machines are coming out on top.

"We do things differently. We have built a vertically integrated platform, meaning we are an advisor but also a brokerage dealer and we control even the smallest deals of the brokerage account," says Jon Stein, founder and CEO of Betterment.

"We are the ones sending you statements, managing your tax lines, managing trading so we can do fractional shares and diversify even $100 across 12 different ETFs."

Launched in 2010, the automated services, 24/7 contact and low management fees (between 0.15-0.35% depending on the investment) offered by Betterment, and the likes of Wealthfront, LearnVest and others, are shaking up the investment process.

With assets under management exceeding $500m, 'portfolios designed for each customer' and services such as tax cost harvesting, rebalancing and automated deposits, Stein believes more and more investors are attracted to such 'low friction' models.

"We are seeing the beginning of a significant and inevitable change. I think investors are looking to save time, save money and invest smarter; we harvest losses for them, rebalance automatically for them and we set up portfolios for each of their goals," Stein says.

By removing lengthy paper trails and streamlining procedures with attractive user interfaces, digital platforms are making investments accessible to the masses (there is no minimum investment required at Betterment) and Bradley Johnson, of financial consultancy firm Advisors Excel, sees their emergence as a positive step for the industry.

"I think where they are beating a lot of the competition right now is that they have almost turned the personal financial world into this game

> WE HAVE BUILT A VERTICALLY INTEGRATED PLATFORM, MEANING WE ARE AN ADVISOR BUT ALSO A BROKERAGE DEALER
>
> JON STEIN, BETTERMENT

theory, where you have these goals that you are constantly trying to achieve and it is all related to your finances," he says.

"They are appealing to people who wouldn't have normally gotten excited about investing. [For] people who don't want to have to fill out a stack of 40 pages to open an investment account, it has made it very easy and very attainable for people to get started."

Tech-savvy and digitally minded, it appears to be the 'Generation Y' 20 and 30-somethings who are attracted most to such services. New-York based platform Wealthfront, which has close to $1bn in AUM, revealed earlier this year it has clients ranging from 19-93, although over 55% of users are under the age of 35. And with more than $10m deposited via smartphone transactions in the company's first three months of trading, it is clear that the investment model, for some at least, is rapidly changing.

By appealing to such a broad demographic, digital platforms are proving attractive options for venture capitalists too – Betterment, Wealthfront and LearnVest received close to $100m in finance in the first quarter of 2014. John Jarve, managing partner at Menlo Ventures, which has backed Betterment with $10m, sees great growth in the sector and its appeal to a more youthful clientele.

"In my mind, this is a massive growth market that is starting at the very beginning. I think Betterment is just as fundamental of a shift as it was when the original ETFs were set up for tracking stock indices and charging very low fees to do that," Jarve says.

"For the Millennials, they are looking for a completely different banking and brokerage experience. Their entire lives revolve around the mobile phone and all of us have such exposure to smartphones that we expect all the apps we interact with to be advanced, and if you don't have that functionality you will lose market share."

While 'democratizing access' to financial services has opened up the industry to more people, it remains to be seen whether these autonomous algorithms will entice the high-net-worth investor. According to *The World Wealth Report 2014*, the wealthy are embracing technology more and more, with the number of HNWIs placing importance on digital financial contact rising from 19.2% in Q1 of 2013 to over 25% in the first quarter of 2014.

Stein believes the presence of HNWIs on platforms such as Betterment will only increase as the technology and services provided develop.

"In our own data we see more and more high-net-worth investors moving to us. We see the average starting balance that people deposit continue to grow and we see more inquiries from them about more specific situations," he says.

"We see such a broad range of customers but we see more of the $200,000-500,000 deposits today than when we started four years ago."

I THINK WE ARE GOING TO SEE A SHIFT WHERE THE [TRADITIONAL] FINANCIAL ADVISORS THAT SURVIVE ARE GOING TO FOCUS ON A HIGHER NET WORTH INDIVIDUAL

BRADLEY JOHNSON, ADVISORS EXCEL

Wealthfront has client accounts ranging from $5,000 to $10m and so the appetite among certain HNWIs is clearly present, although Johnson believes that more traditional advisory services will still be the ones who ultimately serve the majority of the ultra-wealthy market.

"I think we are going to see a shift where the [traditional] financial advisors that survive are going to focus on a higher net worth individual that takes more hands-on planning and more expertise to do the planning with them," he says.

As the digital migration continues, even the most ardent of traditional advisors will have to adopt some level of technology service into their business models. Ron Carson, founder of Carson Wealth Management, which advises on over $4.3bn of assets, sees the emergence of digital platforms as a timely wake-up call for many service providers.

"I think we have to pay attention to it and you have to embrace the best of the newest technologies that are out there. Financial services is very low on reputation and one of the things that I think robo-advisors do is that they are very transparent, they give you access to information, they are very clear about any conflicts, how they are charging and as an investor I really appreciate that," Carson says.

"Our industry is still not putting the interests of our consumers first. There [are] too many hidden conflicts out there, all the fees are not clearly disclosed and I think we have got to get much better at doing that or we will allow these online platforms to take a much larger share of the business."

Regardless of their client base and whether or not they can reach the ultra-high-net-worth investor, automated platforms are providing a much needed boost to an industry which has for too long been rooted in archaic and opaque practices.

As debates surrounding the value of traditional and robo-advisors continue, it remains to be seen how the investor community will be affected in the long term. But just as Charles Schwarb's innovations did in the 1970s, the robo-advisors have undoubtedly changed the investment landscape forever. ■

Advisor Spotlight:

Checchi Capital Advisers

Danny Seo, director of marketing and development, Checchi Capital Advisers, talks to *PAM* about the past, present and future of the firm

BY AMBER MORGAN

It's common for many family office clients to hold a long line of family wealth succession, but what makes Checchi Capital Advisers stand out among other wealth advisory firms is its own deep roots and understanding of family wealth preservation and asset protection, fused with a unique philosophy and the integration of cutting-edge technology.

"You create wealth with intense focus and preserve it with global diversification," says the firm's director of marketing and development, Danny Seo, explaining that managing partner, portfolio manager and founder, Adam Checchi, had to experience this the hard way when faced with the task of managing his family's hard earned wealth that inspired the firm's establishment.

The creation of the Checchi family's wealth culminated from the dedication and years of hard work of Adam's father, Al Checchi; he became the treasurer of Marriott at the age of 30, helped lead the turnaround of Disney while working for the Bass Brothers, and engineered the leveraged buyout of Northwest Airlines, turning it into the most profitable airline at the time.

Then, according to Seo, "the black swan of black swans hit – 9/11. You can imagine what that did to the value of the family's Northwest Airlines position. Exacerbating the situation was that their money outside of this single exposure was invested with the traditional wealth managers, and as it turned out, the family's portfolio was not as diversified as they were advised it would be."

To help get the family's finances back on track, Adam completed a 25-year analysis of his parent's finances, says Seo. "He found that the expensive advisory fees, brokerage costs, and short-term trading that resulted in high taxes, cost the family approximately 4% to 5% every year. Adam decided to fix this problem for his own family, thinking, 'If this is an issue for my family, then it's an issue for other families.'

The inspiration on how to approach the problem came from his Harvard Business School professor: "Own the entire world – you'll never go zero and you won't be gambling. The only bet you make is that civilization will find a way to do it better, faster and cheaper and that's where capital will flow."

With that, Adam Checchi partnered with his childhood friend Sam Pfister, who earned a PhD at Caltech for developing algorithms to enable robust statistical sensor processing in robotic applications, spending 14 months and millions of their own capital to build the Global Separately Managed Account product – a statistical sample of their global database that screens over 120,000 stocks and bonds around the world – and founded the wealth advisory firm.

Since its launch in 2008, Checchi Capital Advisers' use of its proprietary technology personalizes and maximizes global diversification and transparency, while minimizing total cost of ownership including taxes resulting in structural alpha of anywhere from 200-400 basis points.

OUR ALGORITHM CREATES A STATISTICAL SAMPLE OF HUNDREDS TO THOUSANDS OF SECURITIES IN A SEPARATE ACCOUNT FOR EACH CLIENT

DANNY SEO, CHECCHI CAPITAL ADVISERS

"This product was built by the consumer for the consumer utilizing today's technology. With most other firms, products are sold to create earnings to hit quarterly targets for their shareholders. We built a technological solution to the conflict riddled world of wealth management," says Seo.

"We enable our clients to own the entire world. Our definition of the investable liquid world is approximately 30,000 securities so our algorithm creates a statistical sample of hundreds to thousands of securities in a separate account for each client. The sample mirrors the performance of the entire investable world."

Lastly, says Seo, managing taxes is extremely important and through the firm's proprietary algorithms, they are able to significantly minimize taxes. "People often quote net-of-fees but never reveal all the true costs, the conflicts of interest or, of great recent importance, the tax implications. Checchi Capital's technology enables us to tax-loss harvest, gift appreciated stock for charitable causes and gives us optionality when it comes to allocation," he says, adding that the multiple layers of fees and costs associated with traditional advisers have also been eliminated.

"By building our own products and owning the entire world via our proprietary technology, our clients have minimized their total cost of ownership including taxes, while maximizing global diversification, transparency and net return per unit of risk." ■

Bringing fluidity to illiquid assets

By Phil Tobin & Eric Kinaitis,
American Endowment Foundations

Donor advised funds (DAFs) are charitable giving vehicles that are established by a sponsoring public charity, which make grants to other charitable organizations based upon the donors' recommendations. DAFs have become recognized as a simple, smart and meaningful way to engage in philanthropy for individuals and their families due to the tax savings that they offer and the ease of implementation and oversight that they provide to both donors and their financial advisors.

Community foundations pioneered the development of donor advised funds prior to the 1980s. In the decades since, the field has greatly expanded as commercial and independent charitable sponsors, educational institutions and other operating charities started offering the service. DAFs are now the fastest growing charitable giving vehicle in America, outnumbering private foundations by nearly three to one, and vastly outpacing charitable trusts and other similar charitable giving entities combined.

According to the 2013 Donor Advised Fund Report from the National Philanthropic Trust, DAFs grew by nearly $7bn from 2011 to 2012, reaching over $45bn in managed assets. This represents the largest yearly percentage gain in the history of the report.

According to a recent report from Giving USA, Americans gave more than $335bn to charity in 2013, showing four consecutive years of growth in charitable giving. An analysis of IRS data for the most recent completed tax year estimated that nearly $121bn in cash donations were made to charities by individuals. Although this ‘checkbook charity’ is of great value to the organizations receiving the funds, many donors may not be aware of the greater tax and control benefits that donor advised funds could have offered to them.

Not all donor advised fund programs are alike; some sponsors are more flexible than others. In addition to the traditional cash and marketable securities, varied sponsoring organizations will accept illiquid assets including shares of closely held companies (S-corp, C-corp), interest in LLCs, LPs, real estate, life insurance policies, as well as varied retirement assets. Some will allow the donor’s financial advisor to manage investments in the donor’s fund once the illiquid assets are sold.

Established in 1993, American Endowment Foundation is a national independent sponsor of donor advised funds. AEF offers a neutral platform for investment flexibility and grant making, as well as administrative expertise geared to personalized charitable management.

One of the most interesting donor situations we face at American Endowment Foundation is the gifting of illiquid assets. Nearly half of US corporations are classified as S-corporations, representing assets of over $3trn. This presents an enormous opportunity for financial advisors to provide creative and tax-smart solutions in the gifting of illiquid assets.

An illustration of how a donor could gift S-corp shares is illustrated below:

Step 1: A donor gifts $1m of S-corp shares with no cost basis to a charity. The donor receives a $1 million tax deduction. The charity assumes the donor’s cost basis of zero.

Step 2: The charity sells the S-corp shares for $1m.

Step 3: On gifts of S-corp shares, most charities must pay a tax (Unrelated Business Income Tax – UBIT) at the corporate income tax rate of 35% on the appreciated shares ($1m x 35% = $350,000)

Step 4: The charity keeps $650,000 after taxes ($1m - $350,000 = $650,000)

However, there are some creative strategies using donor advised funds that can reduce the effective UBIT rate from 35% to 10%, a reduction of approximately 70%. By reducing the UBIT tax on this gift of S-corp shares, the donor will have $250,000 more assets in the DAF to support his or her favorite charities ($1m less 35% vs. $ 1m less 10%).

From the example above, the clear advantage of donor advised funds is evident. By implementing a DAF, the donor received an immediate tax benefit from an illiquid asset, and was able to retain a larger share of the gift to support his or her charitable interests.

Although the strategies to handle illiquid assets can be as varied and numerous as the assets themselves, providing insight to a DAF administrator concerning the scope and type of assets the client is looking to give and the clients’ charitable intent are starting points. For the donor, they will be guided down the best path in doing charitable good while remaining tax-smart.

The financial advisor benefits by managing client assets that were not otherwise available while in their illiquid form. ■

Increased options

Professionals say that adding options to a portfolio can help high-net-worth clients mitigate risk

BY KELSEY BUTLER

Affluent investors may have a tendency to stick to what they know, but that doesn't mean they always should. Industry experts indicate that options can add value to a portfolio and are creating a chance for advisors to educate their clients about the potentially intimidating asset class.

An option, a financial derivative, is a privilege sold by one stockholder to another. This gives the option holder the right to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

Call options give the option to buy at a specific price, so the purchaser hopes that the stock would go up, while put options give the option to sell at a specific price, so the purchaser hopes that the stock dips.

Kim Dula, a partner at advisory firm Friedman LLP, explains that options can be used to "hedge your bets" or mitigate risk as an investor.

She points out that it is crucial for those new to the asset class to engage "professionals that understand the option language". This can be for several reasons – one, the sector has a "language all its own", she says.

Additionally, Dula says that it is necessary to work with someone in the investment community who "has the reporting expertise that's needed to take the option activity at year-end and translate it into what is necessary when it comes to tax time".

She adds: "Taking it one step further, [that person] needs to be able to translate that further at the end of the year." This may not be needed due to change above.

"Typically people don't have one or two options that they're dealing with. They'll allocate a certain portion of their portfolio into…options. At the end of the year, you'll struggle if you're not working with someone that has reporting capabilities."

There are many factors that can come into play, Dula says, including whether there has been a potential loss or gain, if the option has been sold, exercised or if it expired.

If you don't have a professional tasked with overseeing the reporting, she adds: "The onus is on you [as the investor] to go back to each one of the options and figure out what happened [along with the tax consequences]. It can get very complex and time consuming."

There are also tax consequences to consider with this asset class. When an option results in a short-term gain, an investor is not going to get the benefit of the lower long-term capital gain rates; instead they will be taxed at the ordinary income tax rate, which can be as high as 39.6%.

"Options just by their nature are generally short-term," she says. Those investments that are held for one year or less are considered short-term.

Eric Cott, director of financial advisor education for The Options Industry Council, points out that the "growing interest on the part of single-family offices and multi-family offices [can be attributed to the fact] that they realize there is value by utilizing different strategies in the option world."

He continues: "Whether [single-family offices and multi-family offices] manage assets internally or they outsource to sub-advisors, they're looking at opportunities here due to interest rates being at such historic lows. Once they understand the basics of it, it starts to make sense that they can utilize some of these positions with the intention of earning money while holding [an asset]."

He adds: "There are a lot of misconceptions in the investing public about options and that's one of the reasons we [at the OIC] are here dispelling a lot of those myths and misconceptions.

"One of the simplest misconceptions is that the initial reaction from a client might be: when they hear the word 'options,' they think it's gambling."

He notes that "not all options move identically to stock price" and "there is a little bit more under the hood to understand about them".

"There are so many different types of products that are found in the option industry. The marketplace has really evolved where it makes it viable for hedge funds, institutions and high-net-worth individuals."

"Education is the key component. It takes a little bit of time – options require maintenance. It's one of those things that you don't just set and forget it. They require oversight and maintenance. One must educate oneself through various resources that are out there and get comfortable with it. Maybe start with one strategy and it can evolve to multiple strategies down the line."

He notes: "What this is really all about is mitigating and managing risk – that's what we're really discussing." ■

> NOT ALL OPTIONS MOVE IDENTICALLY TO STOCK PRICE
>
> ERIC COTT, THE OPTIONS INDUSTRY COUNCIL

You need to have 'the talk' before the wedding

By Darren Zagarola at EKS Associates

Darren Zagarola is a financial planner with the wealth management firm of EKS Associates in Princeton, New Jersey.

The phrase "We need to talk" is likely to illicit anxiety and uncomfortable feelings throughout the stages of one's life. This holds particularly true when it comes to 'the talk' involving money and finances that needs to take place before the wedding.

This conversation is crucial whether it is your first marriage or second, whether you're in your 20s or 50s. Why? Studies show that disagreements about money are a leading cause of divorce. Individuals have deep-seated feelings and emotions regarding finances that have been embedded from childhood and refined over time through life's experiences. Parties to a marriage may have had different experiences with money and therefore developed differing values. This is not unusual or something that should cause you to rethink your marriage. Conversely, understanding these differences and having discussions about your financial beliefs can strengthen that relationship over the long haul.

TOPICS THAT ARE UP FOR DISCUSSION

Whether or not it's a first marriage, the couple should identify and discuss assets owned (brokerage accounts, retirement accounts, homes), debts owed to third parties (mortgages, student loans, credit card debt) and monthly income and living expenses. Couples should discuss how they feel about saving vs. spending. Do you believe in budgeting? How will you fund your monthly living expenses? Do you want joint bank accounts and shared expenses or will you maintain your finances separately?

Existing debt and an individual's credit rating could impact future plans. A poor credit rating for one spouse could impact the couple's ability to finance the purchase of a car or home. Payment of student loans could affect the couple's ability to save for retirement early in their marriage.

Investment philosophies should be discussed. What is your combined risk tolerance? Are you looking at your investments as one pool, or separately? Do you believe in passive or active management, mutual funds and ETFs vs. individual stocks and bonds?

What will happen with your finances once you have children? Will you both continue to work? Full-time or part-time? Will one spouse stay home? How will the cost of daycare or a nanny impact your decisions?

SECOND MARRIAGES

'The talk' for those marrying later in life or for a second time is more difficult. Parts of the conversation may be the same for any circumstance: identify assets and liabilities and income and expenses.

At this stage, each spouse has his or her individual financial identity. They have assets in their own name, obligations to their own children. They may have to consider consolidating two homes into one. Decisions must be made on who sells their house and what to do with the proceeds. Do you both sell and start over in a new home? How do you set up the finances for children from a prior marriage? Do you need a prenuptial agreement if the financial position of one spouse warrants it? How does one handle inherited assets in a marriage? If one spouse enters the marriage with an inheritance, you might want the inheritance maintained separately. Inherited assets are not considered marital assets.

You must consider the doctrine of transmutation by which inherited and other non-marital property may be changed into marital property if the facts show that: (1) the property becomes commingled; (2) the property is used in support of the marriage; or (3) the property is used in such way as to show an intent to make it marital property – like placing an asset in joint names.

Another important issue is to discuss whether you want the inherited assets to pass to your spouse on your death or whether you want it to pass to your children (or remain with your side of the family if you don't have children).

As you can see, there are plenty of items to discuss prior to getting married. There are many questions and no set answers. No right way or wrong way. It is important to discuss these topics and arrive on the same page to make sure there are no surprises after the wedding. ■

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