Advisor Authority

ADVISOR AUTHORITY 2019

The Innovation and Issues that RIAs, Fee-Based Advisors and Investors Care About Most

CHAPTER 1: SAFE HAVENS IN AN UNCERTAIN WORLD

CONTENTS:

ADVISOR AUTHORITY:
The Innovation and Issues that RIAs, Fee-Based Advisors and Investors Care About Most

Letter from Craig Hawley, Head of Nationwide Advisory Solutions

Our commitment to RIAs and fee-based advisors inspired us to launch our annual award-winning *Advisor Authority* study, now in its fifth year. We explore the issues and innovative solutions that matter most to help all advisors at every level tap into the tremendous potential of the fee-based channel.

In this latest *Advisor Authority* Special Report, we focus on safe havens in an uncertain world—exploring market volatility and other top concerns, as well as the strategies and solutions being used by RIAs, fee-based advisors and investors in 2019. Over a decade after the Financial Crisis of 2008, concern about volatility is again top of mind for advisors and investors alike and uncertainty is on the rise. In this report, we'll help you better understand the priorities and preferences of investors so you can attract new clients, enhance current profitability and build a foundation for the future growth of your firm.

Looking back, 2018 was a year of opportunities and challenges. The second longest running bull market hit all-time highs, then started shifting course with historic levels of volatility and a dramatic correction. Now markets remain turbulent, as lawmakers continue to dominate the headlines, while gridlock in Washington and global instability continue to impact portfolios. Facing increasing uncertainty and volatility, the challenge of saving enough to prepare for and live in retirement is top of mind for investors and advisors alike. All while consolidation is reshaping the advisor industry, fee compression is creating greater downward pressure and asset management is becoming increasingly commoditized.

As *Advisor Authority* has shown, advisors today must look to the future and adapt—or be left behind. The advisors poised to succeed in the face of these challenges are those who can differentiate themselves by focusing on holistic financial planning, providing unbiased guided advice and creating the competitive advantage of a unique customer experience. Overarching everything, it is clear that the client must come first—a commitment RIAs and fee-based advisors have been making from day one.

Nationwide Advisory Solutions was built from the ground up with a singular focus on serving RIAs and fee-based advisors. We believe in the tremendous potential of the fee-based channel to drive new innovation, disrupt the status quo and transform the future of our industry. We have never stopped in our efforts to develop a deeper understanding of the challenges you face and the solutions that you need to succeed. We will continue taking the pulse of RIAs, fee-based advisors and their clients, to establish benchmarks and provide you with the actionable insights that are so important for your success.

We believe you'll find our research insightful. As always, we welcome your feedback on our findings and your suggestions for next year's study.

Sincerely,
Craig Hawley
Head of Nationwide Advisory Solutions

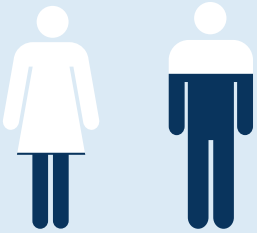
Demographics & Methodology

This is our fifth annual *Advisor Authority* study on the issues and innovative solutions that RIAs and fee-based advisors care about most. It was conceived as a tool that takes the pulse of RIAs and fee-based advisors of all sizes and at every level of experience, to establish benchmarks that you can use to measure your progress relative to your peers—as well as to learn from recognized leaders and industry innovators. As in previous years, we will publish a series of ongoing Special Reports that will be released throughout 2019 and into the first quarter of 2020.

Conducted on behalf of Nationwide Advisory Solutions by The Harris Poll, a leading independent market research firm, the online survey was fielded from February 15 – March 4, 2019 reflecting the viewpoints of more than 1,800 financial advisors and individual investors who reside in the U.S. This year's study includes 1,021 advisors in total, weighted where necessary by employment status and active management to bring them in line with previous years' profile. Among these respondents, we surveyed a "trended group" of 766 RIAs and fee-based advisors, who meet the same qualification criteria as in prior years of our *Advisor Authority* research and will continue to be the primary focus in this year's series of Special Reports.

***Advisor Authority* 2019: "Trended" RIAs and Fee-Based Advisors**

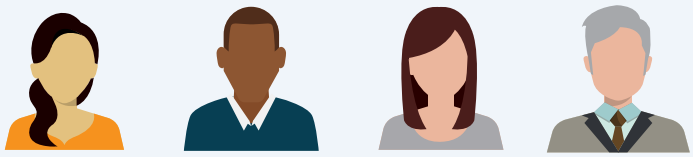
Gender



36% Female

64% Male

Age



Millennial (18-38): 48%

Generation X (39-54): 33%

Baby Boomer (55-73): 18%

Matures (74+): 2%

Total AUM Managed (Individually)

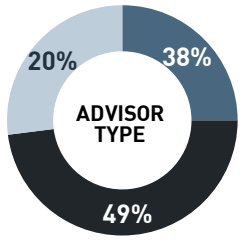
22% Less than $25 million

19% $25 to less than $50 million

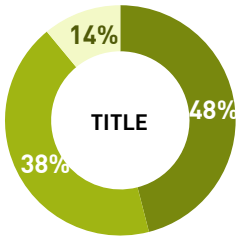
24% $50 to less than $100 million

21% $100 to less than $250 million

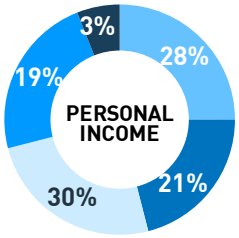
14% $250 million or more



- Independent RIA
- Broker Dealer Registered Representative
- Dually Registered



- Owner or part -owner
- Management
- Non-management



- Less than $100,000
- $100,000-$149,999
- $150,000-$249,999
- $250,000 or more
- Decline to Answer

Among the **824 Investors**, we surveyed:

205 Mass Affluent

205 Emerging High Net Worth (Emerging HNW)

207 High Net Worth (HNW)

207 Ultra High Net Worth (Ultra HNW)

Investors are weighted where necessary by age by gender, race/ethnicity, region, education, income, marital status, household size, investable assets and propensity to be online in order to bring them in line with their actual proportions in the population.

Gender

41% Female

59% Male

Age

Millennial (18-38)	Generation X (39-54)	Baby Boomer (55-73)	Matures (74+)
23%	25%	44%	8 %

Financial Decision Maker

65% Primary Financial Decision Maker

35% Joint Financial Decision Maker

Advisor Relationship Status

62% Have a financial advisor

38% Do not have a financial advisor

Household Investable Assets

59% Mass Affluent
$100,000 to less than $500,000

18% Emerging HNW
$500,000 to less than $1 Million

14% HNW
$1 Million to less than $5 Million

9% Ultra HNW
$5 Million or more

INTRODUCING OUR SUBJECT MATTER EXPERTS:

We interviewed leading subject matter experts to provide you with a deeper understanding of the issues and innovations that matter most. In this Special Report, our subject matter experts explain how they create the "safe havens" that clients seek in an uncertain world.

These leading professionals discuss their unique priorities, preferences and top strategies, examine what it means to put the clients' best interest first and explain how you can drive greater growth by helping your clients stay focused on their long-term plans to build more wealth.

You'll find their commentary throughout this Special Report, as well as more in-depth interviews with each subject matter expert in a dedicated section at the back of this report. Their innovative solutions and actionable insights will help you understand strategies for managing uncertainty and mitigating volatility, to enhance your practice and build a foundation for the future of your firm.

Michael E. Kitces
MSFS, MTAX, CFP®, CLU, CHFC, RHU, REBC, CASL
Partner and the Director of Wealth Management Pinnacle Advisory Group

Michael Kitces is a Partner and the Director of Wealth Management for Pinnacle Advisory Group, a private wealth management firm located in Columbia, Maryland that oversees approximately $2.0 billion of client assets. In addition, he is a co-founder of the XY Planning Network, AdvicePay and New Planner Recruiting, the former Practitioner Editor of the Journal of Financial Planning, the host of the Financial Advisor Success podcast and the publisher of the popular financial planning industry blog Nerd's Eye View through his website Kitces.com, dedicated to advancing knowledge in financial planning. In 2010, Michael was recognized with one of the FPA's "Heart of Financial Planning" awards for his dedication and work in advancing the profession.

John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

John Ohsner joined Heximer Investment Management Inc. in 2012. Prior to joining the firm, he obtained his Life & Health insurance license supporting an employee benefits consultant and Ohio's largest independent insurance broker. Other previous roles include network administrator for a venture capital firm and supporting various entity management services for holding companies and special purpose vehicles at a Delaware-based bank. John is a Chartered Financial Analyst (CFA) Charterholder and a Certified Financial Planner™ certificant. He also holds a Master of Financial Economics degree from Ohio University and a Bachelor of Arts degree from The Ohio State University.

SAFE HAVENS IN AN UNCERTAIN WORLD

Markets hate uncertainty. It drives volatility and ignites concerns. Over the past several years, uncertainty has been ever-present. To better understand the perspectives, concerns and strategies of investors and advisors when it comes to managing uncertainty and mitigating volatility, let's set the scene for 2019.

Back in 2017, optimism was high: the market was fueled by the prospects of a finance-friendly tax plan, Trump's promise to cut government regulation and a business-friendly majority in both the House and the Senate. The market saw record low levels of volatility with the VIX bottoming at 9.14 in November.

Then came 2018. Weakness in the tech sector, fear of rising rates and concerns about slowing growth at home and abroad sent volatility soaring—with dramatic shifts in both directions. In just one month, the VIX quickly spiked from January's low of 9.22 to February's high of 29.06. In fact, over 50% of the ten biggest single-day gains and declines for the Dow Jones Industrial Average happened in 2018. As the year came to an end, optimism waned as the reality of the new tax-reforms set in, while contentious mid-term elections widened the partisan divide and aggravated gridlock in Washington. Likewise, ongoing tension around the globe, and the looming threat of trade wars fanned the flames of unease. Whispers of recession got louder as a strong bull market swayed.

In 2019, RIAs, fee-based advisors and the clients they serve are feeling cautious, yet clear-eyed about the challenges they face. The majority of advisors and investors expect market volatility to increase over the next 12 months, and express concerns about a possible bear market and the potential of a recession in the year ahead. At the same time, they are prepared with strategies to protect their assets and their financial future for retirement and beyond.

This Special Report will help you better understand investor and advisor perspectives, concerns and strategies for managing uncertainty and mitigating volatility. Tap into these insights to enhance profitability now—and position your firm for the future.

"If something can't last forever it won't. Everything goes in cycles. That's the reality. There's no reason tomorrow should look like today, but it often does."

John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

"There's a big distinction between what clients perceive as being economically risky and unstable, and what is actually economically risky and unstable."

Michael E. Kitces
MSFS, MTAX, CFP®, CLU, CHFC, RHU, REBC, CASL
Partner and the Director of Wealth Management Pinnacle Advisory Group

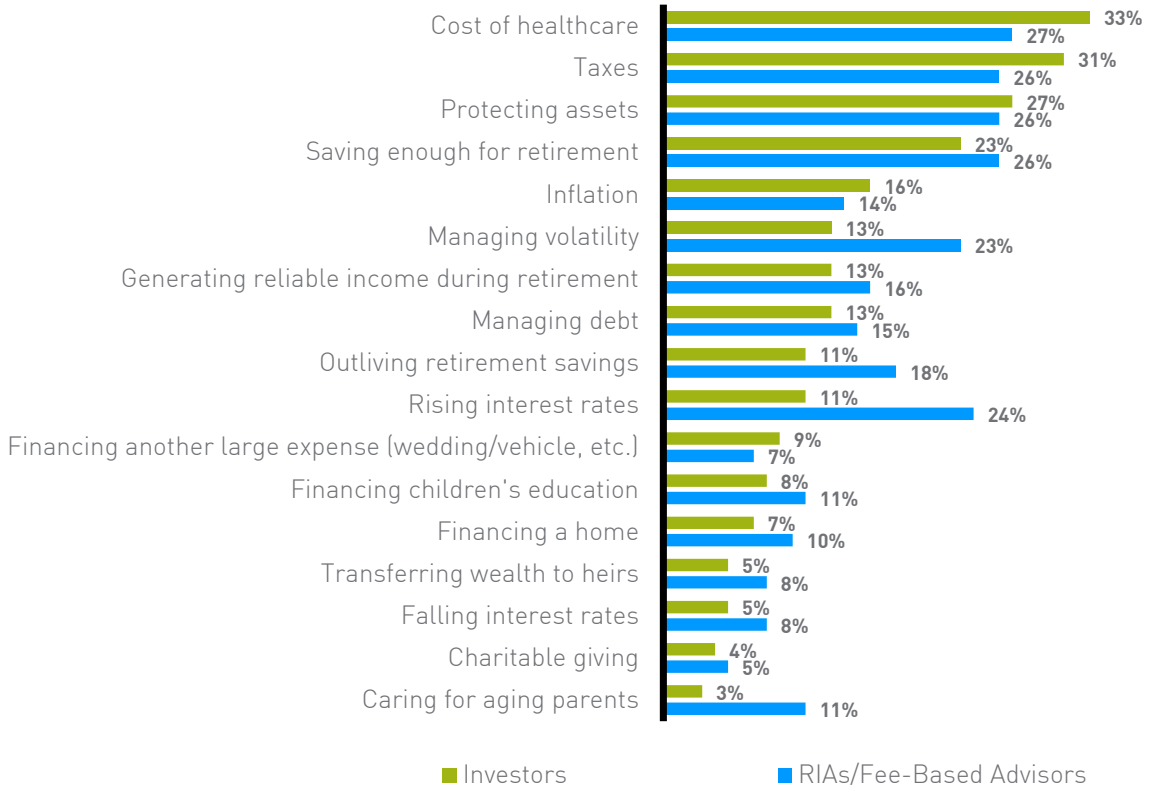
UNDERSTANDING INVESTOR & ADVISOR CONCERNS FOR 2019

In the current political and economic environment, when investors were asked to select up to three financial concerns, the top five financial concerns are cost of healthcare (33%) followed by taxes (31%), protecting assets (27%), saving enough for retirement (23%) and inflation (16%). Managing volatility lands squarely in their top 10 concerns—in a three-way tie for sixth place with generating reliable income during retirement and managing debt (all at 13%).

From the perspective of RIAs and fee-based advisors, their clients' top concerns look somewhat different. Advisors also cite cost of healthcare (27%) as their clients' number-one financial concern, followed closely by taxes, protecting assets and saving enough for retirement in a three-way tie for second place (all at 26%). Rising interest rates are a close third at 24%—and as this report will show, interest rates are a recurring concern for advisors.

Managing volatility is fourth at 23%—suggesting that this is also a greater concern for advisors than investors. In fact, year over year, managing volatility consistently has been of greater concern to RIAs and fee-based advisors than it has been to investors. And for investors who don't have an advisor, concern for managing volatility is somewhat lower than for those who do have an advisor (9% vs. 15%).

TOP FINANCIAL CONCERNS OVER NEXT 12 MONTHS



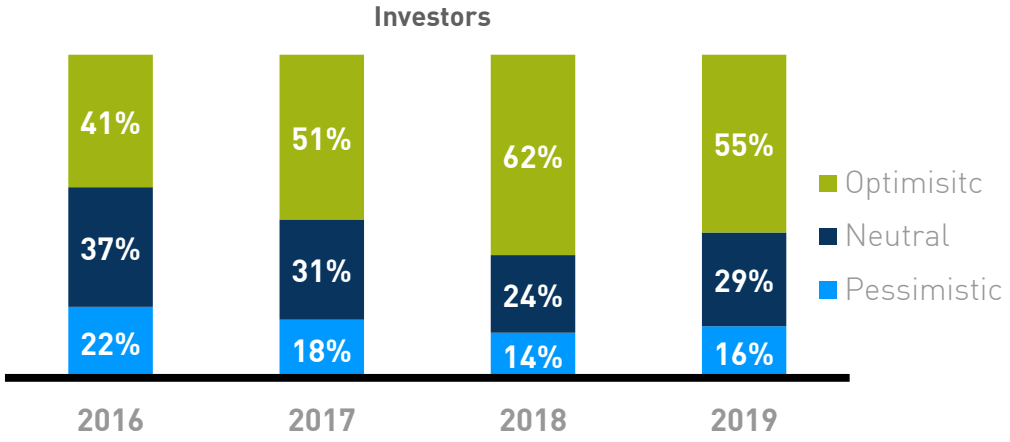
*All coded responses less than 3% are excluded from this table

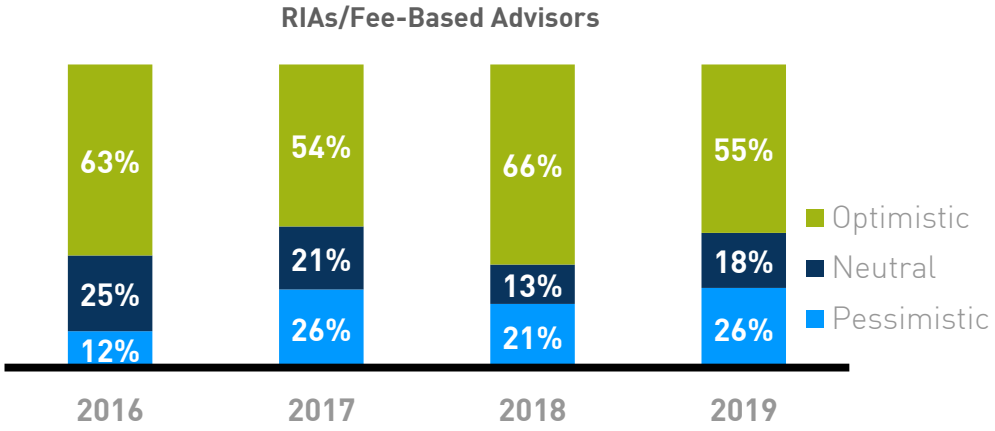
Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)
Q810/Q815. In the next 12 months, what are your/your clients' biggest financial concerns? Please select up to three.

OUTLOOK FOR 2019: OPTIMISM DECLINES & UNCERTAINTY ON THE RISE

In the face of rising uncertainty, investors and advisors are recalibrating their financial outlook. Investor and advisor optimism both declined for the first time in four years at the start of 2019. Investor optimism fell seven percentage points, to 55% in 2019 from 62% in 2018, and advisor optimism dropped 11 percentage points, to 55% in 2019 from 66% in 2018. This sharp reversal could be a return to baseline levels after an anomaly in 2018, when investor optimism at the start of that year jumped 11 percentage points and advisor optimism jumped 12 percentage points.

FINANCIAL OUTLOOK FOR THE YEAR



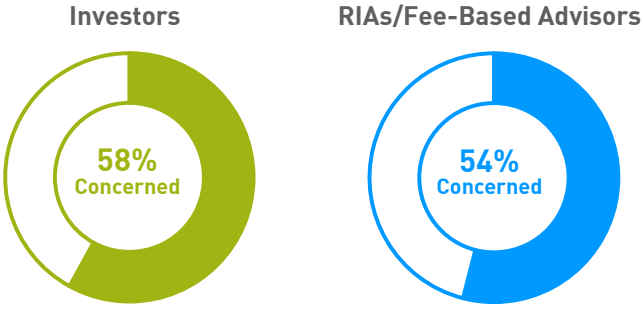


Base: Qualified Respondents: Investors (2019 n=824; 2018 n=827; 2017 n=817; 2016 n=733) and RIAs/Fee-Based Advisors (2019 n=766; 2018 n=760; 2017 n=779; 2016 n=683)
Q1065. How would you describe your financial outlook for the year ahead?

2018 came in (and left) like a lion. Optimism spiked at the start of 2018, following the solid economic performance, record highs for markets and record lows for volatility in 2017. But as the year progressed, uncertainty prevailed—aggravated by fears of Federal Reserve rate hikes, the less promising reality of new tax-reforms, slowing growth at home and abroad, contentious mid-term elections driving the partisan divide and an escalating trade war with China.

Now, in 2019 only four in 10 investors (43%) say they are optimistic about the economy's outlook over the next 12 months, and slightly more than half of RIAs and fee-based advisors (52%) say the same. In fact, nearly six in 10 investors (58%) express concern about a recession over the next 12 months, and more than half of RIAs and fee-based advisors (54%) agree.

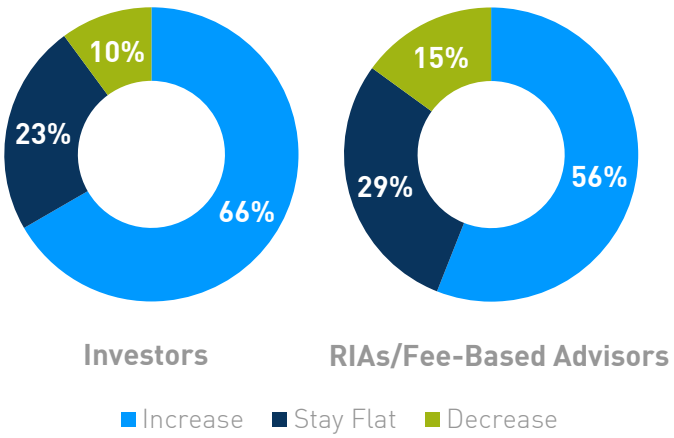
CONCERN ABOUT RECESSION



Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)
Q1220. How concerned are you about a US economic recession (two successive quarters of decline in GDP) over the next 12 months?

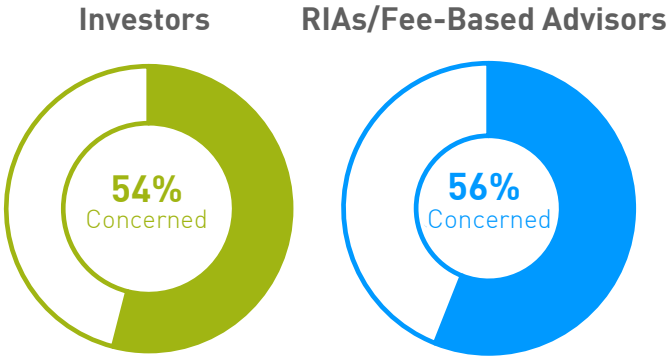
Likewise, only four in 10 investors (44%) are optimistic about the market's outlook over the next 12 months, and slightly more than half of RIAs and fee-based advisors (54%) say the same. Two-thirds of investors (66%) say market volatility will increase over the next 12 months, as do more than half of RIAs and fee-based advisors (56%). More than half of investors (54%) are concerned about a U.S. bear market over the next 12 months, and over half of RIAs and fee-based advisors (56%) agree.

OUTLOOK ON VOLATILITY



Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)
Q1230. To what degree do you anticipate market volatility will fluctuate over the next 12 months?

CONCERN ABOUT BEAR MARKET

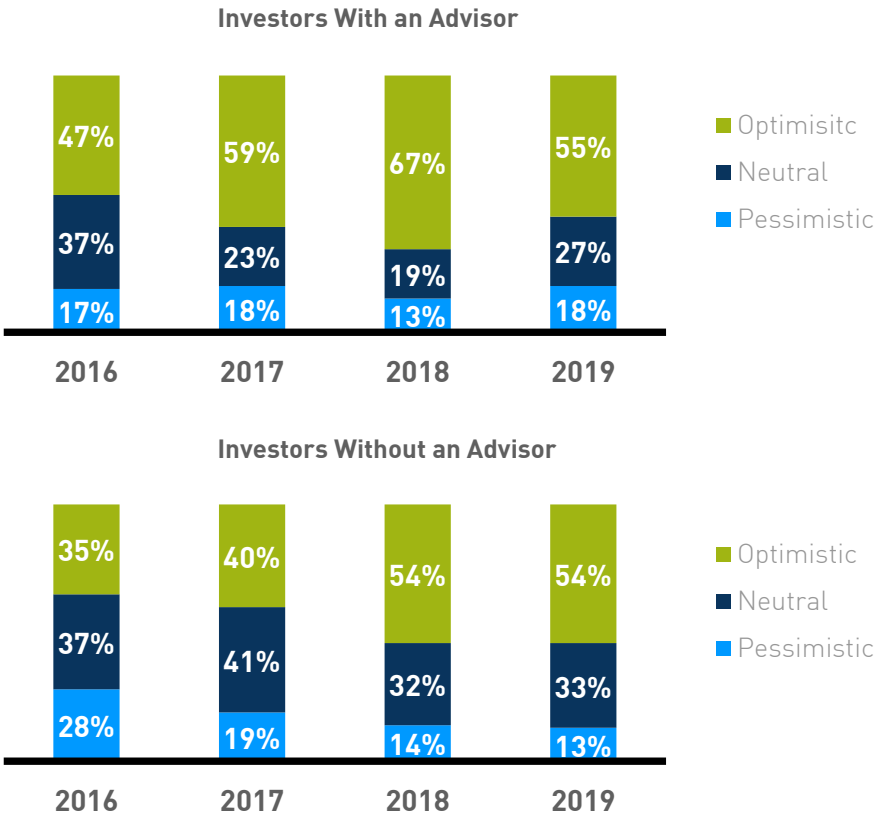


Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)
Q1240. How concerned are you about a US bear market (20% decline) over the next 12 months?

Looking more closely at recent shifts in investor optimism may also hint at an opportunity for advisors to differentiate themselves. Year over year, investors with an advisor have been more optimistic in their financial outlook than those without an advisor. The gap was 10 percentage points or more, even when optimism for both groups spiked in 2018. But, the gap narrowed to just one percentage point in 2019, when optimism of investors with advisors normalized, while investors without advisors remained at the 2018 high.

So, what's going on here? One theory is that investors with an advisor are simply more "in-the-know" than those without. This would suggest that, while investors with advisors are less optimistic than last year, this sentiment might be coming from a place of forewarning rather than one of fear. In other words, advisors are preparing their clients for the volatility and uncertainty ahead. This also suggests that investors without advisors could likely benefit from guided advice to navigate the complex dynamics of a challenging market and slowing economy.

FINANCIAL OUTLOOK FOR THE YEAR



Base: Qualified Respondents: Investors WITH Advisor and Investors WITHOUT Advisor (2019 with 574, without 250; 2018 with 547, without 280; 2017 with 524, without 293; 2016 with 458, without 275)
Q1065. How would you describe your financial outlook for the year ahead?

> "There's a lot of risky stuff going on in this market. If you're willing to buy something for a price that's high, you're willing to accept that risk. There are plenty of reasons to be less optimistic."

John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

CAUSES OF VOLATILITY: GRIDLOCK IN WASHINGTON & GLOBAL INSTABILITY

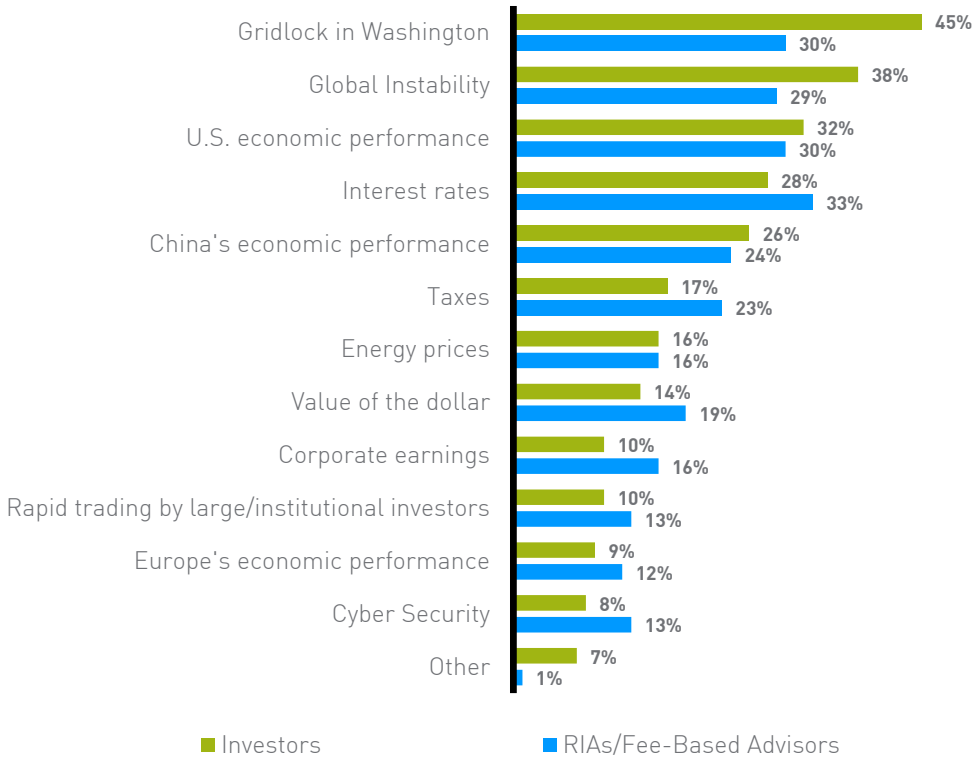
For investors, the fear that volatility will increase clearly runs high. Without a doubt, some investors are losing sleep over market volatility. More than one-fourth of investors (28%) say that when they think of protecting their assets, market volatility keeps them up at night. Nearly one-third of investors (30%) say that when they think of saving for retirement, market volatility keeps them up at night.

Likewise, volatility is impacting the way RIAs and fee-based advisors manage their practice. One-third of advisors (33%) say that market volatility will change the way they manage client portfolios. Nearly one-third of advisors say it will influence the products and solutions they use with clients (32%) and impact how frequently they engage with clients (31%).

When it comes to factors most likely to cause volatility, investors are clear that politics at home and abroad are among the top three. Gridlock in Washington is the number-one factor most likely to cause volatility, selected by nearly half (45%) of investors. Global instability is second, selected by 38% of investors, and U.S. economic performance is a close third, selected by 32%. Investors also say that other top factors include interest rates (28%), China's economic performance (26%) and taxes (17%).

RIAs and fee-based advisors have a slightly different viewpoint on the causes of volatility. Again, we see that advisors have a greater focus on interest rates, saying that this is the number-one factor most likely to cause market volatility, selected by one-third (33%). This is followed closely by gridlock in Washington and U.S. economic performance, tied for second at 30%. Like investors, RIAs and fee-based advisors also say that their top factors include global instability (29%), China's economic performance (24%) and taxes (23%).

MOST LIKELY TO CAUSE VOLATILITY

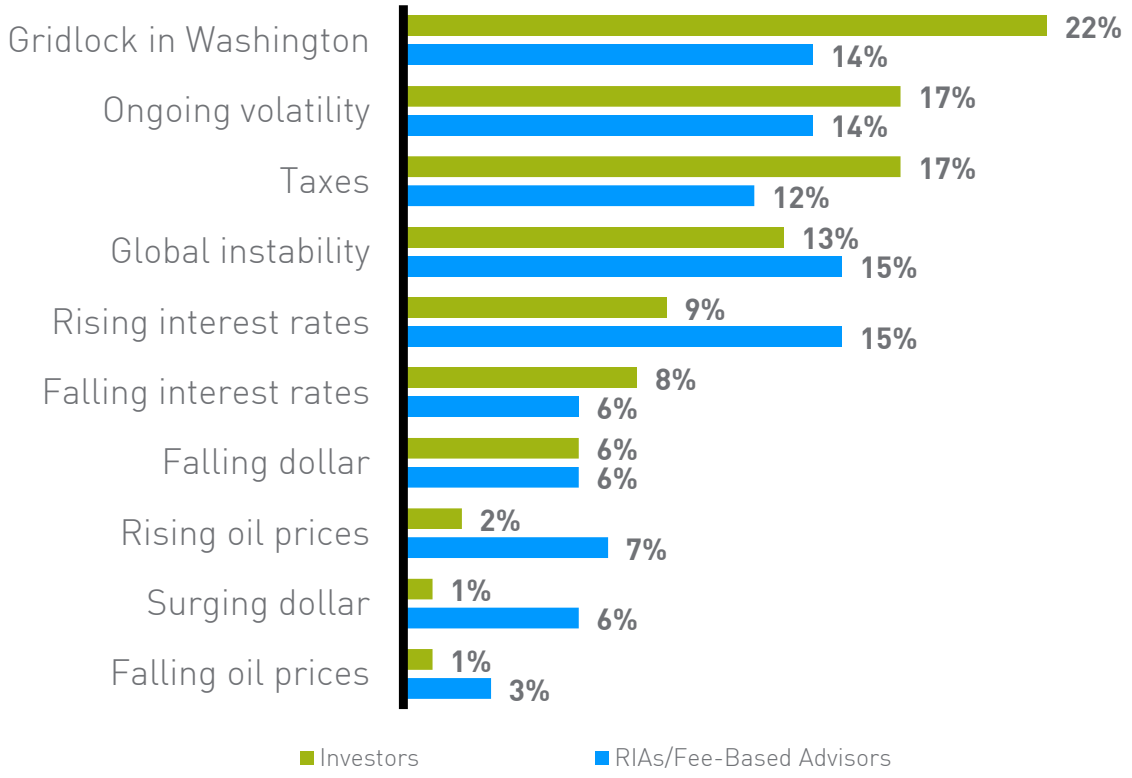


Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)
Q1235. What factors do you think are most likely to cause market volatility over the next 12 months?

When it comes to macro issues that will most adversely impact their portfolio over the next 12 months, investors also believe the number-one factor is gridlock in Washington (22%), followed closely by ongoing volatility and taxes (tied for second at 17%) and global instability (third at 13%).

Again, RIAs and fee-based advisors have a greater focus on interest rates as the top factor most likely to adversely impact client portfolios over the next 12 months—this time tied with global instability (15%). This is followed closely by gridlock in Washington and ongoing volatility (tied for second at 14%) and taxes (third at 12%).

MACRO ISSUES MOST LIKELY TO ADVERSELY IMPACT PORTFOLIOS



*All coded responses less than 2% are excluded from this table

Base: Qualified Respondents: Investors (n=824); RIAs/Fee-Based Advisors (n=766)

Q845/Q850. Over the next 12 months, which macro issue do you believe will most adversely impact your (client's) portfolio? Please select one.

"With the contentiousness of elections over the past several cycles, our clients continue to be really nervous and worried about the political environment."

Michael E. Kitces

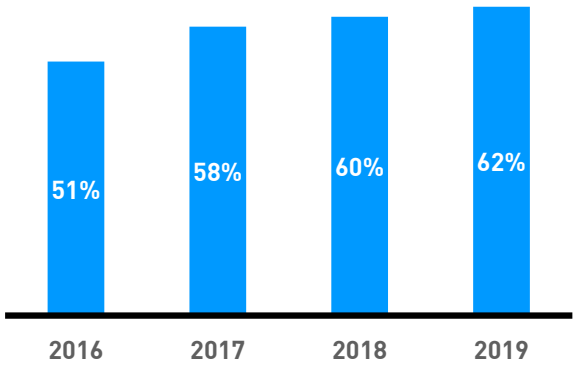
MSFS, MTAX, CFP®, CLU, CHFC, RHU, REBC, CASL

Partner and the Director of Wealth Management Pinnacle Advisory Group

MANAGING VOLATILITY: THE BENEFITS OF HAVING AN ADVISOR

Year over year, a growing number of investors say they have an advisor. This directional increase may reflect their growing uncertainty and declining optimism about the markets and the economy.

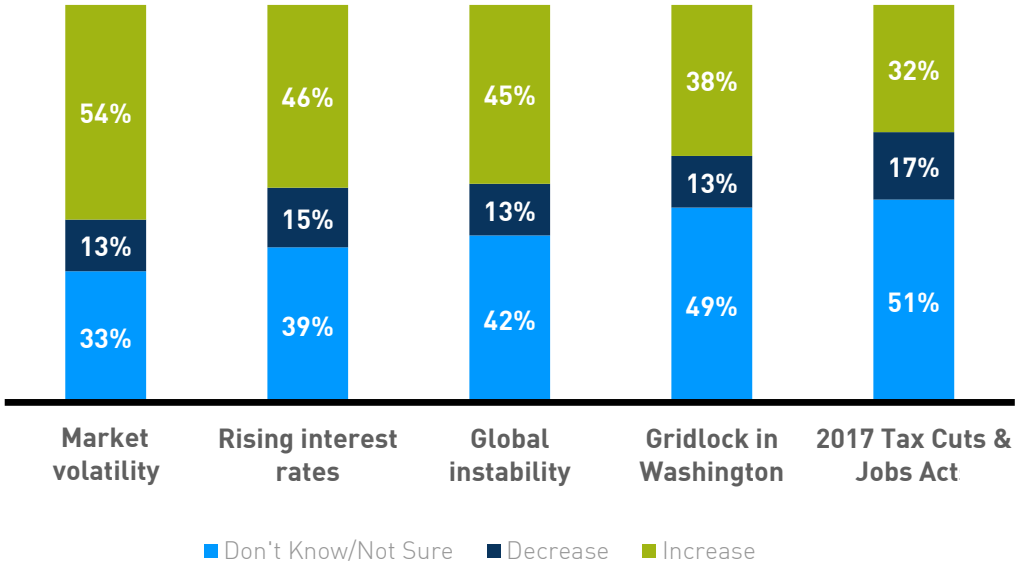
INVESTORS WHO HAVE AN ADVISOR



Base: Qualified Respondents: Investors (2019 n=824, 2018 n=827, 2017 n=817, 2016 n=733)
Q800. Do you have a financial advisor?

While our research shows that there are many interrelated factors creating uncertainty, eroding optimism, causing concern and impacting portfolios, over half of investors say market volatility is a leading scenario that would increase the likelihood that they would work with an advisor over the next 12 months.

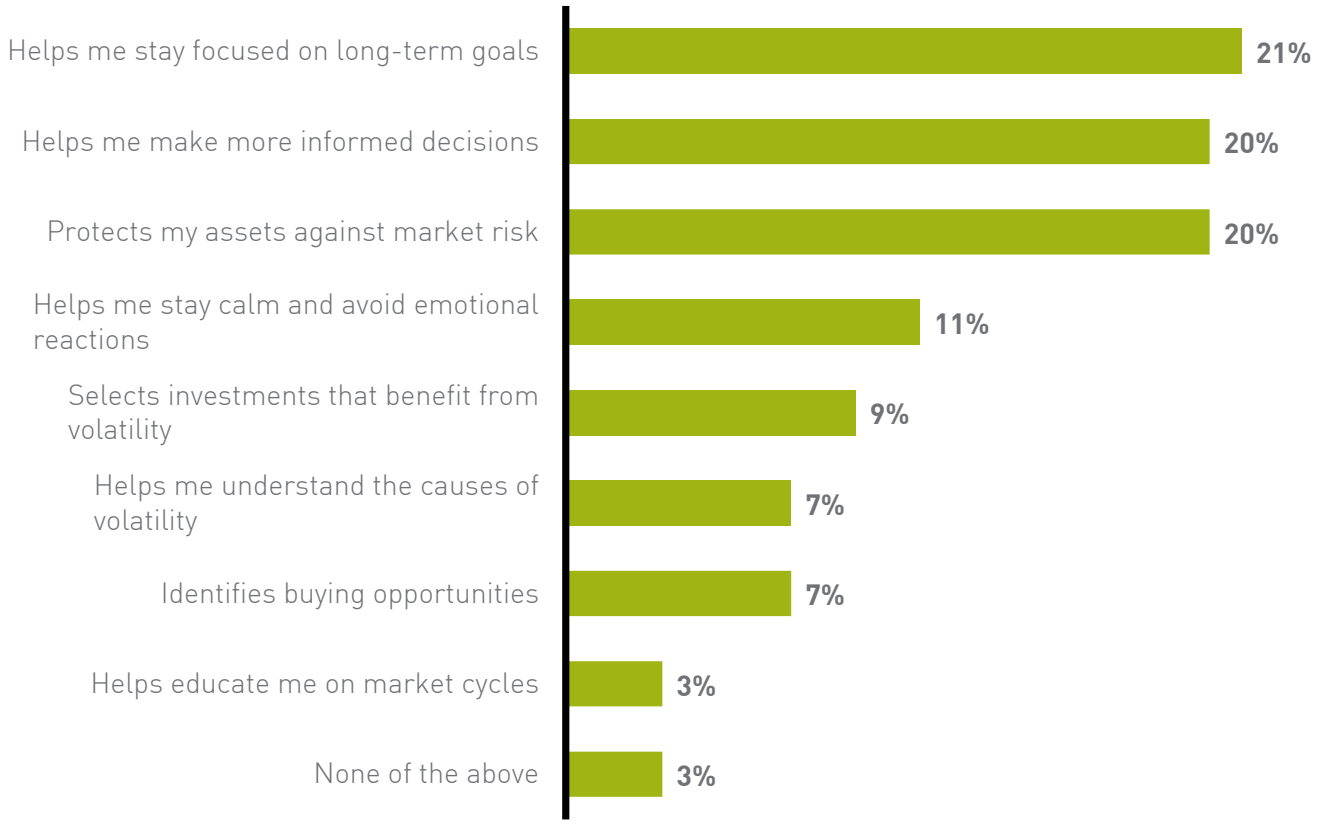
SCENARIOS THAT INCREASE THE LIKELIHOOD INVESTORS WILL WORK WITH AN ADVISOR



Base: Qualified Respondents: Investors (n=821)
Q1270. How much, if at all, will each of the following economic and/or political scenarios increase or decrease the likelihood that you will work with a financial advisor over the next 12 months?

Asked to identify the most important benefit of working with an advisor when markets are volatile, investors most commonly say that helping them stay focused on long-term goals (21%) is number-one. This is followed closely by helping them make more informed decisions (20%) and protecting their assets against market risk (20%).

BENEFITS OF HAVING AN ADVISOR WHEN MARKETS ARE VOLATILE



Base: Qualified Investors with a Financial Advisor: (n=574)
Q804. When markets are volatile, what is the most important benefit of working with a financial advisor? Please select one.

> "If you put your client first and are grounded in a good process, your clients will see that. Doing good work drives profitability."

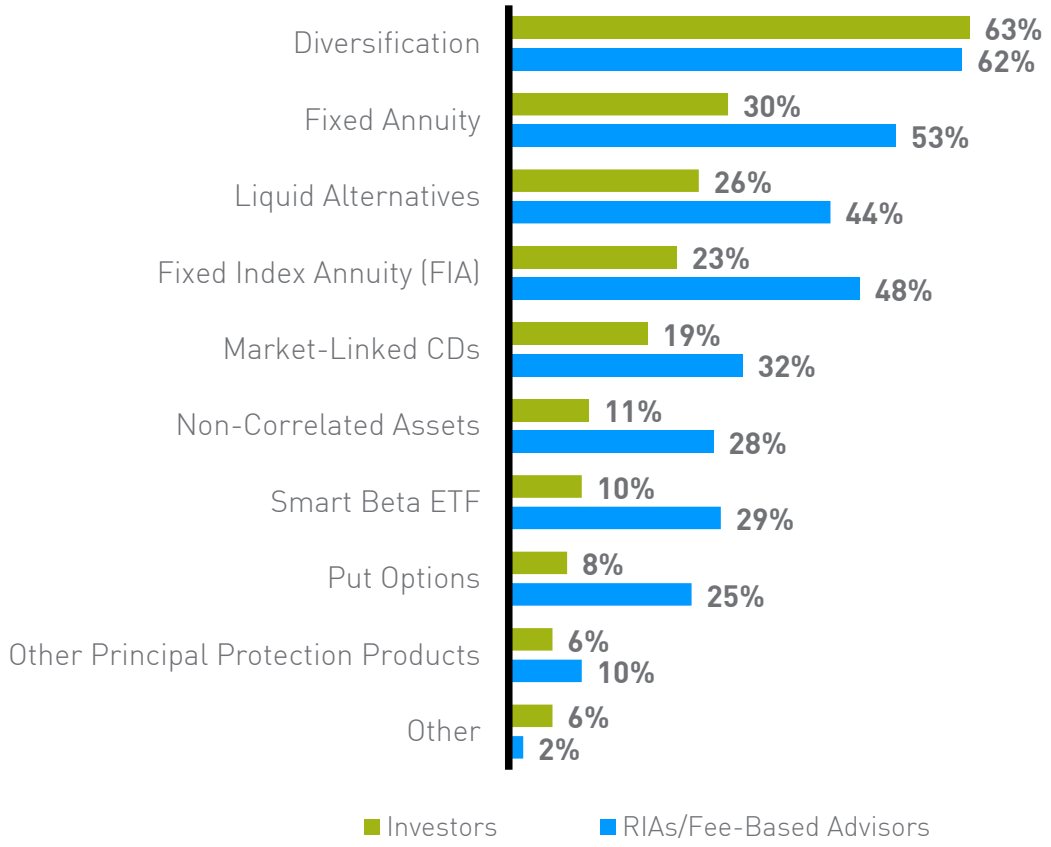
John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

PROTECTING ASSETS: STRATEGIES & SOLUTIONS

With volatility on the rise since last year, the vast majority of RIAs and fee-based advisors (88%) have a strategy in place to protect their clients' assets against market risk. Likewise, this has become increasingly important to investors. While only 65% of investors in 2019 say they have a strategy in place to protect their own assets, this is up eight percentage points from only 57% of investors in 2018.

When it comes to strategies used to protect against market risk, nearly two-thirds of advisors (62%) and investors (63%) agree that diversification is their most utilized solution. However, advisors also are more focused on using a diverse range of solutions—including fixed annuities (53%), fixed index annuities (48%) and liquid alternatives (44%). While investors rely on some of these same solutions—including fixed annuities (30%), liquid alternatives (26%) and fixed index annuities (23%)—their usage is much lower.

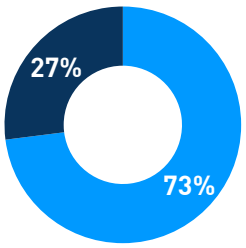
STRATEGIES USED TO PROTECT AGAINST MARKET RISK



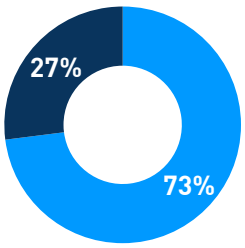
Base: Qualified Respondents with a Strategy to Protect Assets Against Market Risks: Investors (n=587); RIAs/Fee-Based Advisors (n=655)
Q8015. Which of the following solutions do you use to help your clients/you protect their/your assets against market risk?

However, rising concerns about volatility do not appear to have a meaningful impact on investing strategies in 2019. Roughly four in 10 RIAs and fee-based advisors (43%) and just one-fourth of investors (25%) say they feel pressure to revise their investing strategy over the next 12 months. Among the advisors who do feel pressure to revise their investing strategy, 73% will manage more conservatively and 78% will manage more actively. Likewise, among the investors who say they'll revise their investing strategy, 73% will manage more conservatively and 76% will manage more actively.

REVISING INVESTING STRATEGY IN 2019: CONSERVATIVELY VS AGGRESSIVELY



Investors

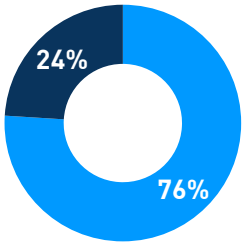


RIAs/Fee-Based Advisors

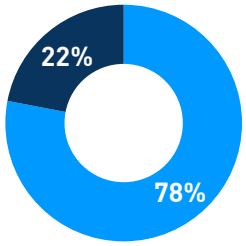
More Conservatively More Aggressively

Base: Qualified Respondents who Feel Pressure to Revise Investing Strategy: Investors (n=207); RIAs/Fee-Based Advisors (n=373)
Q1290. How will you revise your investing strategy over the next 12 months?

REVISING INVESTING STRATEGY IN 2019: ACTIVELY VS PASSIVELY



Investors



RIAs/Fee-Based Advisors

More Actively More Passively

Base: Qualified Respondents who Feel Pressure to Revise Investing Strategy: Investors (n=207); RIAs/Fee-Based Advisors (n=373)
Q1290. How will you revise your investing strategy over the next 12 months?

PROTECTING AGAINST OUTLIVING SAVINGS: STRATEGIES & SOLUTIONS

Facing increasing uncertainty, volatile markets and a slowing economy, saving enough for retirement—and generating reliable income for a retirement that could last 30 years or more—is one of the biggest unknowns. From the 10,000 Boomers a day who are currently retiring, to the Millennial investors who will be part of the workforce for several decades to come, concerns about the retirement income challenge are real and growing.

Nearly three-fourths of investors (70%) have a strategy to protect against outliving their savings. Investors consistently cite Social Security as a common solution for an income strategy (70%), using it far more than other available solutions. Less than half of investors use dividend yielding stocks (46%) and defined benefit plans/pensions (43%). Less than one-third use variable annuities with living benefit riders (32%). Across the many other solutions available, usage drops considerably (between 13% to 18%).

A far greater number of RIAs and fee-based advisors (87%) have a strategy to protect their clients against outliving their savings. Likewise, more than half of these RIAs and fee-based advisors cite Social Security as a solution for an income strategy (52%)—and roughly the same number use variable annuities with living benefit riders (53%) as a solution to protect income for their clients.

RIAs and fee-based advisors are more focused on a diverse range of solutions. Among these, fixed income ladders/bond ladders (50%) are by far the most popular. More than four in 10 use dividend yielding stocks (44%) and defined benefit plans/pensions (41%). Nearly four in 10 are likely to rely on yield generating ETFs (39%) and a range of different income generating annuities including Longevity Insurance/Deferred Income Annuity (or DIA, 38%), Single Premium Immediate Annuity (or SPIA, 38%) and Qualifying Longevity Annuity Contract (or QLAC, 35%).

Notably, more than one-fourth of RIAs and fee-based advisors (27%) say that market volatility would make them more likely to use variable annuities with guaranteed living benefits to generate retirement income and one-fourth (25%) say that rising interest rates would make them more likely to use fixed income ladders/bond ladders to generate retirement income over the next 12 months.

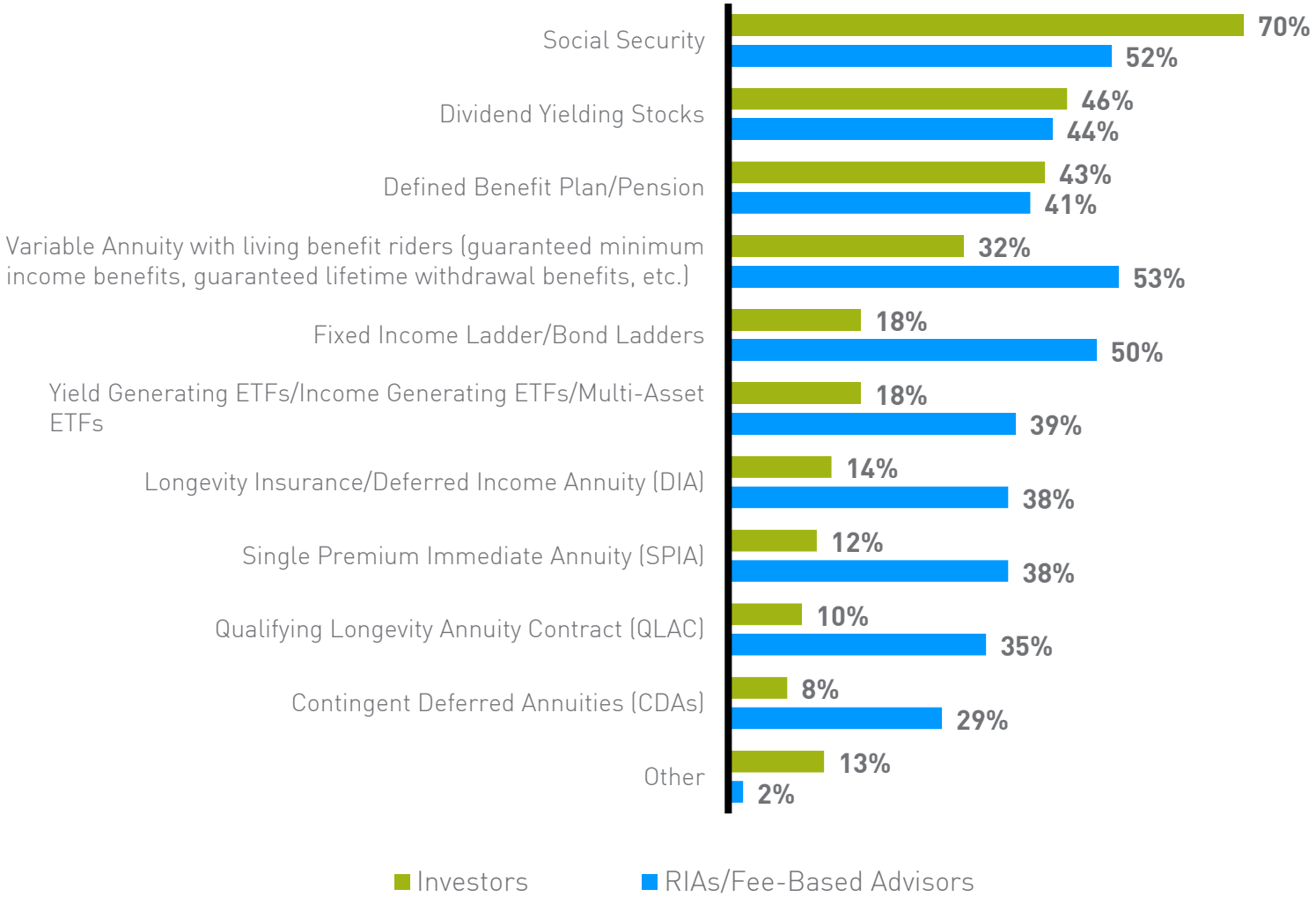
> "A major concern we often see is the shift in retirement saving from what historically was more of a defined benefit pension world to the world of defined contribution. It shifts risk from the employer to the employee."

John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

> "It's pretty easy to just get complacent and comfortable when the industry hasn't had a significant bear market in a decade. But advisors have been through this before. There's nothing like a fresh round of market volatility for clients to start calling more."

Michael E. Kitces
MSFS, MTAX, CFP®, CLU, CHFC, RHU, REBC, CASL
Partner and the Director of Wealth Management Pinnacle Advisory Group

SOLUTIONS USED TO PROTECT AGAINST OUTLIVING SAVINGS



Base: Qualified Respondents with a Strategy to Protect Against Outliving Savings: Investors (n=653); RIAs/Fee-Based Advisors (n=652)
Q8007. Which of the following solutions do you use to help protect your clients/yourself against outliving savings? Please select all that apply.

Nationwide® is on your side

Advisor Authority

SAFE HAVENS IN AN UNCERTAIN WORLD

PROFESSIONAL INSIGHTS FROM OUR SUBJECT MATTER EXPERTS

We interviewed leading subject matter experts to provide you with a deeper understanding of the innovations and issues that matter most. In this Special Report, our subject matter experts explain how they create the "safe havens" that clients seek in an uncertain world. These leading professionals discuss their unique priorities, preferences and top strategies, examine what it means to put the client's best interest first and explain how you can drive greater growth by helping your clients stay focused on their long-term plans to build more wealth. Their innovative solutions and actionable insights will help you understand strategies for managing uncertainty and mitigating volatility, to enhance your practice and build a foundation for the future of your firm.

Michael E. Kitces
MSFS, MTAX, CFP®, CLU, CHFC, RHU, REBC, CASL
Partner and the Director of Wealth Management, Pinnacle Advisory Group

Michael Kitces is a Partner and the Director of Wealth Management for Pinnacle Advisory Group, a private wealth management firm located in Columbia, Maryland that oversees approximately $2.0 billion of client assets. In addition, he is a co-founder of the XY Planning Network, AdvicePay and New Planner Recruiting, the former Practitioner Editor of the Journal of Financial Planning, the host of the Financial Advisor Success podcast and the publisher of the popular financial planning industry blog Nerd's Eye View through his website Kitces.com, dedicated to advancing knowledge in financial planning. In 2010, Michael was recognized with one of the FPA's "Heart of Financial Planning" awards for his dedication and work in advancing the profession.

Advisor Authority: When it comes to creating safe havens for clients, how do you help them block out all the noise so they can stay focused on their long-term plan?
KITCES: You have to recognize that most people are hard-wired to want information. They want to know what's going on. You can't tell them to just ignore everything they see in the media. It's not realistic to think they can tune all that stuff out. The things they're worrying about often make for good news headlines but aren't actually the things that drive markets and returns. So our approach is to be very proactive. We put out our market commentary (our economic outlook) to highlight the big headlines—and offer our two cents on it. This gives us an opportunity to make it clear what we think is really going on, what factors are driving the market and what's really impacting their portfolios. That's how we set people's minds at ease in an uncertain world—we give them our perspective as a (better) lens by which they can see the world and all that information they're taking in. In addition, doing so is literally communicating to them that we are spending all our time paying attention to these things—and doing something about it where necessary—so that they don't need to worry about it themselves.

AA: So what are you doing from a management perspective?
KITCES: We start with diversified portfolios as the foundation. Though while we have our long-term diversified portfolio plan in place, we will make adjustments based on what we're seeing in markets and in the economy. We have the flexibility to adjust our course with a strategy to manage through it. Part of this is driven by our investment philosophy. We are not a passive firm, but what we would categorize as a tactical firm. To be clear, we aren't making market timing decisions—in fact, we don't think most people are particularly good at that. But we do think that when you can take in the right information, you can tactically make shifts—to either take advantage of opportunities, or more commonly move away from super risky segments of the market to protect clients.

AA: Protecting assets is a top concern for investors and advisors—especially as the majority expect rising volatility, a potential bear market and a possible recession. What are your solutions?
KITCES: For firms like ours that are more tactical, you can make trades to adjust for a bear market or for a recession. You can take down volatility, you can dial down riskier investments and you can dial up more defensive investments. In the broader advisor landscape, right now I see a lot of diversification focused on how many different ways can we make money in a bull market. And I like making money in a bull market too. But there's arguably an opportunity for all firms to take a fresh look at their diversification… and there are great tools out there to stress test portfolios through real recession scenarios. When you stress test the portfolio, does everything in your portfolio go down at the same time? In which case you are almost certainly not well diversified. Liquid alts might be a popular solution, but I actually worry when I hear people talk about them as diversifiers. Because in practice, they're so liquid, it's very easy for them to get sold off and decline in price in a bear market or in a recession like the rest of the risk-based investments they were "supposed" to be diversifying against.

AA: Our findings show that many investors say gridlock in Washington will be the top factor causing volatility—and the number-one factor that will negatively impact their portfolio. Do you agree?
KITCES: With the contentiousness of elections over the past several cycles, our clients continue to be really nervous and worried about the political environment. As a citizen of the country, I would like to see things improve, and I am very concerned about what happens in Washington, too. Stability and growth are important for our country and our economy. Ironically, though, from an investment perspective for client portfolios, gridlock tends to produce market stability, not instability. If you look at market history, what you find is markets are the most stable, and tend to go up, when there's gridlock in Washington. Because markets hate change—and when Washington is gridlocked, that means nothing changes. It preserves the status quo. Which ironically tends to support the usually positive momentum already in place.

AA: If you could ask 700 advisors one question, what would it be?
KITCES: What techniques are you actually using that help you manage client behavior?

AA: And if you could ask 700 investors one question, what would you want to know?
KITCES: To what extent is an advisor's ability to help you manage your own investment behaviors a factor in choosing which advisor to work with?

John Ohsner
Portfolio Manager & Partner
Heximer Investment Management

John Ohsner joined Heximer Investment Management Inc. in 2012. Prior to joining the firm, he obtained his Life & Health insurance license supporting an employee benefits consultant and Ohio's largest independent insurance broker. Other previous roles include network administrator for a venture capital firm and supporting various entity management services for holding companies and special purpose vehicles at a Delaware-based bank. John is a Chartered Financial Analyst (CFA) Charterholder and a Certified Financial Planner™ certificant. He also holds a Master of Financial Economics degree from Ohio University and a Bachelor of Arts degree from The Ohio State University.

Advisor Authority: RIAs and fee-based advisors are at least two times more likely than investors to say interest rates are a top financial concern, and more likely to say interest rates are a driver of volatility. Why do you think that might be happening?
OSHNER: The cost to borrow is at historic lows, so we live in a world with a lot of debt. When is that too much—when is it unsustainable? And as debt matures and rolls over, how is it going to be priced? The yield curve reflects the market's concerns. The price of a dollar of income is high because yields are so low. That requires a larger capital base to fund the same dollar of income in retirement. Past assumptions don't hold in a new regime. The probability of financial ruin is higher with lower rates of return. I'm surprised investors would be so much less concerned. Maybe advisors, can see that more clearly than investors – or are more willing to accept the reality of the math.

AA: Investors say top drivers of volatility include gridlock in Washington, global instability and U.S. economic performance. How do you help your clients gain perspective on factors that dominate the headlines but are ultimately out of their control?
OSHNER: I used to play a lot of golf. In my best rounds, I rarely ever had a triple bogey. I lined up right for each shot, kept my head still and avoided three putts. Those kinds of basics exist for investing too. Often you have successful outcomes when you do a good job with the basics – and you do them time and time again. It's more about focusing on the things investors can control. They can't control the market's pricing of their assets. Investors can manage tax-efficiency, keep fees and expenses low, manage diversification and other factors. In other words, they can put their hands on the club the right way. They can line up down the fairway instead of out of bounds and try to avoid those triple bogeys.

AA: More than half of RIAs and fee-based advisors say volatility is on the rise. What are your solutions to manage volatility?
OSHNER: Having the right amount of cash reserves set aside to get you through a rough period is essential. Specific to volatility, we introduce non-correlated assets and monitor how those relationships change. Good diversification means the whole portfolio isn't driven by one reason or risk factor, having a strategy to diversify and balance competing risks. Market risk, interest rate risk, default risk, manager risk, all come into play. Managing volatility is really about positioning your portfolio in a way that helps eliminate the kinds of fluctuations that aren't survivable. Covering basic fixed expenses and layering the required return versus the desired return and the aspirational return. Anything is on the table for our firm and that includes insurance products, when appropriate. The cost-benefit analysis comes down to the right mix for that client's circumstances.

AA: What is the most important thing you do for your clients?
OSHNER: Clients hire us to have a well thought out approach and process to manage their assets. Our process is designed not only to address the nuts and bolts of a portfolio, but also to understand our client's reality and extract the important highlights from their life that are going to drive how their portfolio and long-term plan get put together. We're in the business of taking risk and our process emphasizes where clients can be adequately rewarded for it. Ultimately, I want to be structured in a way that serves the clients' best interest and poses the least conflicts of interest. Clients can see that you care and that you have their interests ahead of your own.

AA: If you could ask 700 advisors one question, what would it be?
OSHNER: How did you turn down a client and when did it make sense to do that? What made that the right decision?

AA: And if you could ask 700 investors one question, what would you want to know?
OSHNER: What is your sell strategy and what is your process?

Methodology

The fifth annual *Advisory Authority* Survey was conducted online within the United States by The Harris Poll on behalf of Nationwide Advisory Solutions from February 15 – March 4, 2019 among 1,021 financial advisors and 824 investors, ages 18+. Among the 1,021 financial advisors, there were 507 Registered Investment Advisors and 514 Broker/Dealers. Among these respondents, a "trended group" of 766 RIAs and fee-based advisors, who meet the same qualification criteria as in prior years of our *Advisor Authority* research, continue to be the primary focus in this year's series of Special Reports.

Among the 824 investors, there were 205 Mass Affluent (Household Investable Assets of $100,000 to less than $500,000), 205 Emerging High Net Worth ($500,000 to less than $1 Million), 207 High Net Worth ($1 Million to less than $5 Million) and 207 Ultra High Net Worth ($5 Million or more).

Advisors are weighted where necessary by employment status and active management to bring them in line with previous years' profile. Investors are weighted where necessary by age by gender, race/ethnicity, region, education, income, marital status, household size, investable assets and propensity to be online to bring them in line with their actual proportions in the population.

Field Periods:

2019	February 15 – March 4
2018	January 3 – February 21
2017	March 13 – April 7
2016	March 3 – March 28
2015	April 13 – April 24

Reading the Data in this Report

Responses may not add up to 100% due to weighting, computer rounding, or the acceptance of multiple responses.

About The Harris Poll

The Harris Poll is one of the longest running surveys in the U.S. tracking public opinion, motivations and social sentiment since 1963 that is now part of Harris Insights & Analytics, a global consulting and market research firm that delivers social intelligence for transformational times. We work with clients in three primary areas; building twenty-first-century corporate reputation, crafting brand strategy and performance tracking, and earning organic media through public relations research. Our mission is to provide insights and advisory to help leaders make the best decisions possible. To learn more, please visit **www.TheHarrisPoll.com.**

About Nationwide Advisory Solutions

Nationwide Advisory Solutions is a recognized innovator with a mission to help RIAs and fee-based advisors build their practice by helping their clients to potentially accumulate more wealth and reach their financial goals. Nationwide Advisory Solutions does this by developing and delivering value-added investment products, services and technologies that dovetail with fiduciary obligations—wrapped in an industry-leading customer experience. To learn more, please visit **www.nationwideadvisory.com**

About Nationwide

Nationwide, a Fortune 100 company based in Columbus, Ohio, is one of the largest and strongest diversified insurance and financial services organizations in the United States. Nationwide is rated A+ by both A.M. Best and Standard & Poor's. An industry leader in driving customer-focused innovation, Nationwide provides a full range of insurance and financial services products including auto, business, homeowners, farm and life insurance; public and private sector retirement plans, annuities and mutual funds; excess & surplus, specialty and surety; pet, motorcycle and boat insurance. For more information, visit **www.nationwide.com**. Follow us on **Facebook** and **Twitter**.

Advisor Authority

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