

A surreal illustration of the year 2020 as a winding path. The path starts with a 'closed' sign and a fire, goes through a person running, a drone, a person on a horse, and ends with a crowd. It also features coronavirus icons, oil barrels, and two men at podiums.

Letter from the CEO

At RiXtrema, we are primarily a fintech firm. We have products ranging from retirement plan marketing and analytics to risk analysis and regulatory compliance. And while no one needs a reminder of the challenges we all faced in 2020, there were some bright spots for us.

We launched one of the most exciting products for the plan advisor to date: Larkspur Executive Pro+. For this new offering we developed a whole host of integrated new features including email campaigns, marketing quizzes and landing pages. Most importantly, clients using our software were able get meetings and win business in a challenging environment. It is truly rewarding to hear our clients tell us how our software helped them to continue to grow and thrive. And while we certainly don't want a repeat of 2020, we think we made the best of it.

I say we are primarily a fintech firm because we spend a lot of time as a quasi-publishing firm, focused on content and educational topics that can help our community. As an example, we closed the year in a very 2020 way: with our free 4-part Elite Plan Advisor Accelerator Series, an educational seminar where hundreds of advisors logged in via Zoom to learn some of the best marketing techniques to grow their business. The feedback was amazing, and we look forward to doing more events like it in 2021.

Another example is this magazine, a collection of our blog and podcast content produced over the last year which, as you will see, covers quite a range of topics that are of interest to the financial advisor community. With subjects that span marketing strategies, investing, portfolio risk assessment, and the regulatory landscape to topics like George Gilder, Facebook and Beyond Meat, we cover quite a bit of ground. And it seems that you, our clients, prospects, and community members have enjoyed this content, as our readership has grown dramatically over the past 12 months.

So, in the spirit of putting 2020 behind us, we present the 2020 Investing Counterpoint collection. We chose these selections from our blog, and while we publish many topical articles, our Investing Counterpoint Collection contains some of our more timeless posts - posts that will be valid in 2021 and beyond. Posts that we think will be helpful to you as you look for new ideas to grow your company and your brand. Content that contains strategies to build your business, or techniques to become more adept at marketing are included to help you move forward and continue to grow. We also have a few selections on the regulatory landscape, the impact of stock buybacks on the market, and of course, the (in) famous George Gilder.

It is funny, but while we have won awards for our research (recipients of the 2015 IJJ Peter L. Bernstein award for "Risk Estimation and Hedging: A Reverse Stress Testing Approach"), and have been used as references in documents put forth by the Consumer Federation of America to the SEC in lead up to the creation of Reg-BI ("Significant Fee Waste in Retirement Plans – New Study Using Quantitative Methods Working Paper", RiXtrema), our most widely read article is about George Gilder.

Who is George Gilder? Well, read on to find out.

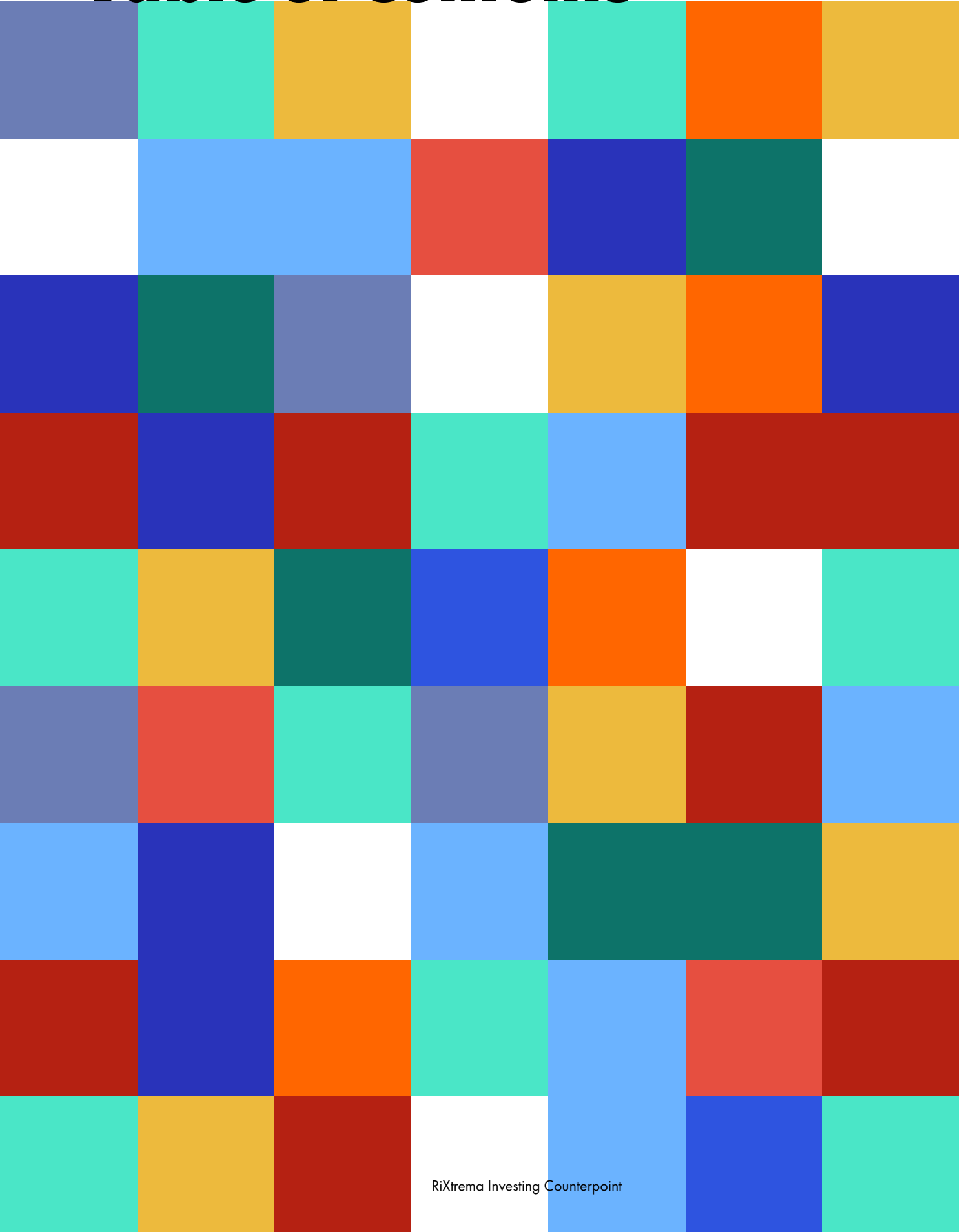
To our clients, thank you so much for your business. We hope that you have found the partnership valuable and our technology an important part of your strategy – and we can't wait to continue our relationship in 2021. If you are not currently a client, we thank you for reading our educational materials and being part of our community of financial advisors, investors, and learners - we have a lot planned in 2021, so maybe we'll get to work together soon!

Here's to a great year!

Yon Perullo, CEO



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3 Reasons Why Google's Days May be Numbered: A Book Review of Life After Google by George Gilder

AUTHOR: DANIEL SATCHKOV

George Gilder, as an investment expert, certainly had his ups and downs with an emphasis on downs. He is remembered by many for his wild eyed predictions of 'making a killing' in this or that dotcom in 1999. He led his readers to a painful near wipeout in 2000.





However, that is not how history will remember him. He will be remembered as a technologist who had the uncanny ability to see beyond the next turn. If you need to be convinced of this, just read this quote and try to guess when it was written:

"...the dominant traffic of the future will be store-and-forward transmission of digital data among millions of supersmart computers, or 'teleputers'. These machines will be capable of summoning or sending films or files, news stories and clips, courses and catalogs anywhere in the world. Whether offering 500 channels or thousands, TV will be irrelevant in a world without channels, where you can always order exactly what you want when you want it, and where every terminal commands the communications power of a broadcast station today."

This was written in 1994 in a book called *Life After Television*, as Apple was in shatters and iPhone was not even conceived. In fact, it is a known fact that Steve Jobs read that book around the time and was so impressed by it, he passed out copies to friends. What's a few wrong (badly wrong) stock picks compared to this amazing prediction. Here is another quote if need more goosebumps:

"The new system will be the telecomputer or 'teleputer', a personal computer adapted for video processing and connected by fiber-optic threads to other teleputers all around the world. Using a two-way system of signals like telephones do, rather than broadcasting one-way like TV, the teleputer will surpass the television in video communication just as telephone surpassed the telegraph in verbal communication".

In fact, it could be argued that the only thing that Gilder did not predict was the name that we use to call these devices, he called them teleputers, but the name smartphone stuck much better. However, even that is not true as he clearly anticipated the 'smart' nature of the smartphone:

"Similarly, the television networks are optimized for transmission of expensive centralized programming in real time to millions of dumb terminals (boob tubes). But the dominant traffic of the future will be store-and-forward transmission of data among millions of supersmart telecomputers."

Thus, even that he knew. So, when someone like that writes a book on technology, the only rational choice for a reasonable person is to fork over 15 or 20 bucks and read it. That is what I did. His latest book is called Life After Google: The Fall of Big Data and Rise of the Blockchain Economy. The title kinda gives away the central premise of the book, but it doesn't mean it is not worth a read. I have to warn a reader, this book is a stream of consciousness where political and cultural opinions are superimposed on technological brilliance and it takes effort to dig out the gold (a very apt metaphor given that Gilder is a monetary gold bug).

So, why does Gilder think Google's days are numbered. His argument can be split into a few parts:

Google has reached its peak.

While people extrapolate from success and usually see even more success, technological revolutions

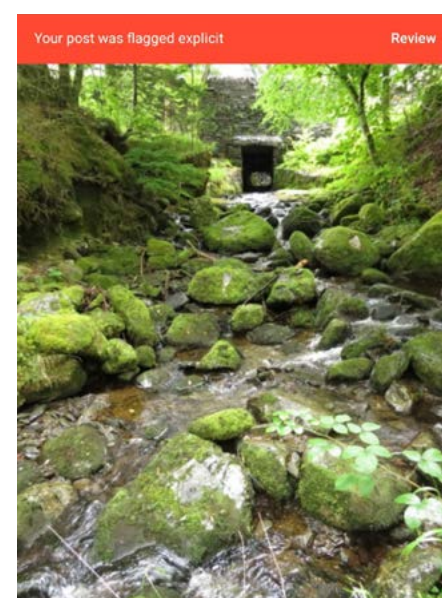
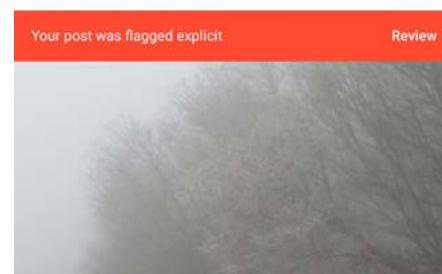
made sure that no company stays dominant and new frontrunners always emerge. A simple empirical and factually correct argument.

Google relies too much on big data and artificial intelligence algorithms and has bet its future on them.

The self-reinforcing myth of the AI has led those in the Silicon Valley to believe that AI can actually surpass human mind in creativity. Gilder argues that powerful data crunching does not equal intelligence or creativity. He believes that Google has bet everything on replacing human creativity with big data and is becoming increasingly centralized. It is a fact that Google has not had many successful products. It is essentially a one trick pony with its search engines, other successful products were acquired and most of their big projects failed. Before they shut down Google+, their failed social network, there was a joke going around Google saying 'if you want to have a secret party, announce it on Google+'.

Its big project with Google Glass, a smartphone in your glasses type gadget with some very creepy properties earned those who tried to wear those glasses a derogatory name 'glassholes'. So, it may be that Google is betting on big data and centralization simply because that is all it has. Regardless, Gilder feels like Google's focus is an attempt to exploit their one (but major) success to centralize everything and connect the whole world through Google. To become the indispensable company. And he believes that Google will fail, because promise of big data and AI will fail. Why will big data and AI fail:

- **Security.** Because centralization creates security risks. When you have centralized servers that store personal data of billions of people, they become a target. And whether it is an old fashioned inside job or Ocean's Eleven style improbable heist, it will be stolen.
- **Centralized Big Data & AI stifles creativity and tries to reduce all problems to large computation problems.** But computation problems are the least interesting ones. Gilder believes that the usefulness of these algorithms is immensely overstated and I agree. I think they are much more hype at this point. A brief diversion from the book. Consider two somewhat risky examples of AI algorithms failing miserably. One is Tumblr's failure to flag pornographic content using automated algorithms. At right are some pictures that this incredibly powerful AI deployed by a multi-billion dollar company flagged as pornography (don't worry, it is not):



Source: <http://digg.com/2018/tumblr-flagged-adult-content-mistakes>

Google's search is a pretty incredible innovation, but it would be foolish to extrapolate that success to other areas of human knowledge and creativity. It only appears creative, in fact it works only because the web contains lots of interlinked websites and those links can be standardized. Not a creative endeavor.

The second illustration of the failure of the famed AI algorithms is the inability of Facebook's algos to recognize livestreaming murders on their platform. Surely, a company like Facebook has enough money and know how to set up algorithms that will recognize



and automatically report shooting and deaths on a video. Yet Facebook was not alerted and the livestream from the recent New Zealand tragedy was running for 15 minutes(!) before being terminated. This doesn't sound like something that will cure all world's problems and/or threaten human race in a Skynet style within decades.

But let's get back to Gilder's list of reasons for impending Google's failure. So far, we identified two of them:

- Lack of security in a centralized model
- Lack of creativity in the big data model

A bit more vague

The third reason for failure of Google's way of the world is a bit more vague with Gilder. He talks about Silicon Valley upending capitalism and distorting feedback that they get from the markets. How do they do that as per Gilder? By providing tools like Google search for free and being culturally 'Marxist'. Here I am baffled that such a smart man could fall for such a cheap ploy. Silicon Valley tools are not free, everyone knows that. The users of Google and Facebook are what's for sale and those platform are very adept at packaging that good and receiving proper price signals. So, Gilder's third point is nearly incomprehensible to me.

Now that we sketched out reasons for Google's failure, let's examine how in Gilder's opinion blockchain can overtake Google. In short, by reversing the three points above.

- 1. Decentralized blockchain model distributes security.** Because in a blockchain model all login data is kept on user's computers, it is more secure. That may sound counterintuitive. How could yours or my PC be more secure than Google's data center? Plainly, that is because there are many of us and while our PCs are easier to crack, they have to be cracked one by one, while Google's (or Facebook's or Visa's) are winner take all.
- 2. Decentralized model empowers creativity.** Because the blockchain model is open to the world, it is easy to get creative with it without permission from Googles of the world.
- 3. The third reason for blockchain dominance that corresponds to the third defect of Google's way of the world is, again, a bit more vague.** I guess the fact that every transaction on the blockchain typically carries a fee in the blockchain's native token or cryptocurrency does away with 'free Marxist' Google tech. But we've already established that neither Google nor any other Silicon Valley is Marxist, in fact, they are some of the most profit oriented enterprises in the history of mankind and earn incredibly high margins (more on that here: [How Facebook Exploits You & What It Means For Your Portfolio](#) and here: [How Amazon of 2018 is Facebook of 2015 & What Happens Next?](#))

There are lost of other topics Gilder touches on in the book. It is a bit of a stream of consciousness, so I only focused on those that directly explain the main theme of the book. There are lots of political diversions of all kinds as well, so be warned on that.

Overall, the book is fascinating despite its many quirks and you simply must read what this man says, especially after some of the quotes I gave in the beginning. While I do believe that George Gilder's main forecast is correct, though probably early as usual, I think he left out some important reasons for failure of Google's way of the world.

You can read my take on it in this blog article called [The Deep Internet and Why Crypto Must Beat Centralized Platforms Or Die](#)

11 Client Acquisition Tips for Financial Advisors

AUTHOR: DANIEL SATCHKOV



Here are some smart, innovative ideas and suggestions from experts to get in front of your target audience and bring in some new clients:

BLOG, BLOG, BLOG

There is no better place to start finding new clients than your own online content. If it is not clear, I am talking about blogging. Even though blogging takes time, if you do it consistently for many months, it will pay back in the currency of new clients, wider reach and a social profile of the expert on various questions related to finance. Being viewed as an expert is a very attractive position to be in since people are looking for professional advice all the time. Writing a blog on your own website and for different financial magazines help you to reach out to many hundreds, even thousands of prospects who will start to follow you if they like your content. These are potential prospects who may reach out to you one day. Try starting your blog if you do not have one and see how it will propel your business to new heights.

BE ORIGINAL

Distinguishing yourself from the crowd is invaluable when it comes to gaining new clients. You need to be able to stand out and show a client that your services are better than the rest. This could mean having one particular niche that you specialize in or even some specialized software tools. For example, you could try to specialize in younger clients with a large investment horizon, building portfolios meant for long-term growth. You could even go the other route and help those reaching retirement soon to continue to protect their savings. Utilizing powerful risk methodology could be what helps you stand out to these investors to prove to them that you are right for the job, whatever it may be.

HAVING A TARGET MARKET MAKES YOU MEMORABLE!

By identifying a target market you will be better able to find new clients and significantly improve the effectiveness of your prospecting. You will need to build a Target Client Profile that includes both demographic and psychographic details. Begin by making a list of attributes you admire about your favorite clients. What is it about them that makes it a pleasure to serve them?(source)

Identify the following:

- Their socio-economic group
- Their geographical location
- Gender
- Age
- Education
- Income
- Profession

A BIT OF NETWORKING CAN GO A LONG WAY

Investing that extra effort to leave a lasting good impression will pay off down the road. Whether it is sponsoring community organizations or going to networking events. Later on when your name comes up in front of a decision maker or a prospect, they already may have a positive association with you. Although an unlikely coincidence that a prospect may already be aware of you, what is likely is that someone else they know might. In the era of LinkedIn and other social networks, it is important to have a large network of people who would happily vouch for you. Check online if your prospect has any shared connections and then ask a favor of that mutual acquaintance to put in a good word for you. This will go a long way to creating trust which is the backbone of any deal.

Other factors to identify:

- Are they executives with assets in non-qualified plans?
- Are they business owners with a need for a 401(k) plan?
- If a business owner, what type of industry?
- Are they professionals with 401k's who need rollover assistance?
- Are they families in need of wealth management, trusts, and wills?
- Are they single parents needing 529 plans?
- Are they new mothers and fathers in need of life insurance?
- Where do they congregate?
- What technology do they use?

KNOW YOUR NUMBERS

How many calls, on average, do you make per day? If you make 100 dials, how many people will you speak with? If you speak with 100 people, how many will agree to an appointment? If you can't answer those three questions, you are doing something wrong. Your entire life changes when you are able to predict your income, and you do that by knowing your numbers. If it takes you 100 phone calls to set 5 appointments and you convert one to a client, then you can predict your income, provided you know your average client's contribution to the bottom line. Let's say I get one client for every 100 phone calls and each client contributes \$2,000 to my bottom line. If I want to gross \$500,000 this year, all I need to focus on is making 25,000 phone calls, or 69 per day. It's almost 90 per day if you work five days a week. The numbers will vary based on your situation, but you get the idea. Knowing your prospecting numbers is incredibly empowering, and it can also help you stay persistent.

MODERNIZE

For advisors who want to bring in more millennial clients you can not just make a few small changes. If you're going to do it, you need to go all in. This includes modern marketing techniques, fee structure, technology — everything that goes into a practice. A lot of advisors even hire a millennial planner and let them come in to build out a service model and build a new brand. That might mean a brand with a different website, a coffee shop look (to the office) that's more attuned to what these younger clients expect. That can absolutely be done, and it's a wonderful strategy if that's the way you want to go. ([source](#))

IMPROVISE

Obtaining new clients is much more difficult than keeping the old ones, and it requires additional efforts and expenses. Today's market might seem oversaturated with different types of products and services, which can be true, but you should always be flexible and smart to make a good impression on our prospects and stand out from the crowd.

First, make sure you do your best to get in touch with your audience. Try to utilize all new and old resources (including social media and communication tools) to get your message directly to them. Make them notice you and take interest in what you say. Communicate in their language to be understood.

When experience doesn't help, and you notice that you need to invent a new approach, don't be afraid, because every new step is worth a try. In the worst case you'll lose one prospect, but at the most, you'll gain a lot of new clients.

HOLD A FREE SEMINAR OR EVENT

People that would invest in financial planning solutions are likely savvy about money and would take advantage of something free and valuable. Host a free seminar or event in your area that offers strategies, tips and, insights on such topics as growth investing, retirement planning, and wealth-building. These types of events allow you to establish credibility with those in attendance and promote your services directly. You can also hold free client appreciation events for established customers as a way to not only reinforce those relationships but also to generate referrals. You can also step it up a notch and host an online webinar which has a potential of getting a broader audience with practically nothing on the expense side for you.

BUILD A MARKETING STRATEGY AROUND LIFE EVENTS

Here is some valuable advice from Samuella Becker, CEO and Founder of Tigress PR: *Knowing how to market your services around your potential clients' life events will keep your business relatable and relevant. Celebrate your clients upon achieving a financial goal milestone—purchase of first house, kid's college graduation, retirement—and host a party in their honor at a public venue where you can attract attention that could lead to new business. Don't shy away from niche consumer magazines (e.g., bridal). A couple embarking on a new life together—whether combining assets or keeping separate accounts—needs to understand their partner's spending habits (often opposites attract—spender and saver), student loan debt, and how their separate bank accounts will or will not mesh together after the wedding. Finally, you can also cultivate strategic alliances. A couple seeking a matrimonial lawyer for a prenup may be in the market for a financial advisor as well. ([Source](#))*

ARM YOURSELF WITH A GOOD CRM

During your hunt for a client the same questions keep spinning in your head – when was your last follow up with a Lead A? Have you sent the necessary letter to Prospect B? These and many other questions can be easily answered when you use a CRM – Customer Relationship Management software.

CRM is one of the best ways to streamline your clients acquisition. You can't possibly hold all the information you need in your head when you're on a hunt for clients. CRM will remind you who you've already contacted, who you need to follow up with, what contact methods you've used, etc. in a best timely fashion. A good CRM will record things like call history, calendars, appointment reminders, meeting notes etc, keeping your entire interaction history with your potential clients.

USE AN UNORTHODOX APPROACH WITH THE LARKSPUR EXECUTIVE PRO & PLATINUM

At Larkspur-Rixtrema we have thought a lot about this challenge and we have created a product called Larkspur Executive PRO & Platinum that we think can help, though our approach may be a bit unorthodox. We started by asking "What if we could develop a tool that enabled our clients to pitch a prospect with relevant information about assets the prospect likely holds?". This would allow you to show portfolio risk and potential challenges the prospect may face in certain scenarios using assets that they are familiar with. You could immediately demonstrate your value proposition to a client in a more concrete way.

The bottom line is that using a good CRM can dramatically increase your client acquisition ratio because it gives you an accurate report of your activity level and allows you to systematize your sales process. With a CRM you will have the metrics that help you literally to predict your future.

You have nothing to lose with a good CRM – getting yourself organized is one of the best things you can do for your business. Besides, many of the CRMs, if not all, always offer a fully functional free trial period, after which you may continue using it even completely for free (with some limitations).

For about 1.2 million executives in the US, we can help do exactly that. Of course, we can't get the portfolios these executives hold, but we can get close. At least close enough that the conversation is relevant and will hopefully compel the prospect to pay attention to your pitch. Over the years we have developed an extensive database of 401K plan menus and the contact information for executives that work at the plan sponsor. By combining this information with our Portfolio Crash Testing (PCT) tool, you have a powerful prospecting platform that gives you the ability to tailor a unique pitch. Here are the 4 steps to your next new client: *Follow These 4 Simple Steps to Win Over Prospects and Grow your Practice.*

6 Best Practices In Client Communication For Financial Advisors

AUTHOR: DANIEL SATCHKOV

In our modern world, there are tons of ways to keep up with your clients and even prospects, and we've thought up a few ways below for you to keep in mind. Whether it's their preferred means of communication or what you should be talking about with them, we hope you'll find some of our strategies below useful:



ADJUST TO YOUR CLIENTS' COMMUNICATION PLATFORM

You may prefer a phone call, but your client might just want a quick text message to get to the point of the conversation. Always ask if this is the preferred method of communication for your client. Here are some stats on the top communication apps to keep in mind:

<https://i.pinimg.com/564x/1f/2b/1c/1f2b1c7859292874a76a324fd20c5bdc.jpg>

By using the communication platform your client prefers you are not only increasing your chances of being heard but also demonstrating your tech versatility and the ability to adjust to your client's needs. This could be crucial in the long run in terms of building trust and credibility.

GET BACK TO THE BASICS

When sitting face-to-face, remember the basics of good communication:

- Maintain good eye contact and speak clearly at a level your clients will understand.
- Don't use technical jargon.
- Keep things as simple as possible – don't use two words when one will suffice.
- Once you said your piece ask if your listeners understood you correctly – what they hear may not be the same as what you're saying.
- If clients look glazed over, try again.

And of course remember to listen more than you talk. Only by listening intently to your clients will you get to the bottom of what they really want. Plus, people find

it flattering when others want to listen to them. Finally, analogies are a good way to communicate the nature of market volatility while vision stories are great at communicating the rewards of investing.

BE SELECTIVE WITH WHO YOUR CLIENT IS.

When it comes to advising how to grow your business there will be a ton of literature on how to do it fast. Most of it will ignore the human factor, instead focusing on the number of clients, leads, prospects, etc. However, the human factor should be a primary focus when you building your business you want to last for your lifetime. It is more productive (more AUM) and more efficient (more is done with less time) to work with people with whom you have connection, respect, and mutual understanding. This kind of client-base does not have to be restricted by a narrow niche, but rather can include people from different fields. As long as you have a common interest that makes your cooperation a productive endeavor, your niche can be as wide as the world.


MAKE IT TRULY PERSONAL

Monthly newsletters oriented purely around professional topics, no matter how well-written or insightful, are cold and impersonal to many clients. What's more, this information can be found almost anywhere. Instead, focus on making connections in unexpected, more personal ways. For example, while most advisors already send out holiday and birthday cards, they forget about other important days. I recently worked with an advisor team that one year



sent their BBQ-enthusiast clients a high-end barbeque sauce in advance of the July 4 holiday weekend. Another advisor reached out on Arbor Day to clients who enjoyed the outdoors and nature, giving them seeds to plant a tree. In each case, the response was overwhelming, because the gestures were thoughtful, heartfelt and unexpected. [Source](#)

BE WELL AWARE OF YOUR CLIENTS' BEST INTERESTS



Whether your client is a CFO in a big company running a 401(k) plan or a person planning to rollover into an individual retirement account, it's always worth checking what material you have to work with in the first place. Their portfolio is what you may need to analyze first, even before your first meeting. First check all their investment options in the portfolio, analyse them in terms of performance and cost-efficiency, estimate the risks, and create a strategy for improving it. Being well prepared is a key point for your confidence, and trustworthiness. Nothing works better than a firm argument based on solid facts and accurate calculations. All of this will make your clients more inclined to follow your advice and ask you for further assistance in the future.

COMMUNICATE WITH CLIENTS EVEN WHEN YOU'RE NOT AROUND

Even if it's not the most personal method, online content still provides a great opportunity for you to speak to your clients constantly even when you are not available in person or online. The forms of communication can vary but here are some useful examples to keep in

mind: <https://visual.ly/community/infographic/economy/roth-comparison-chart>

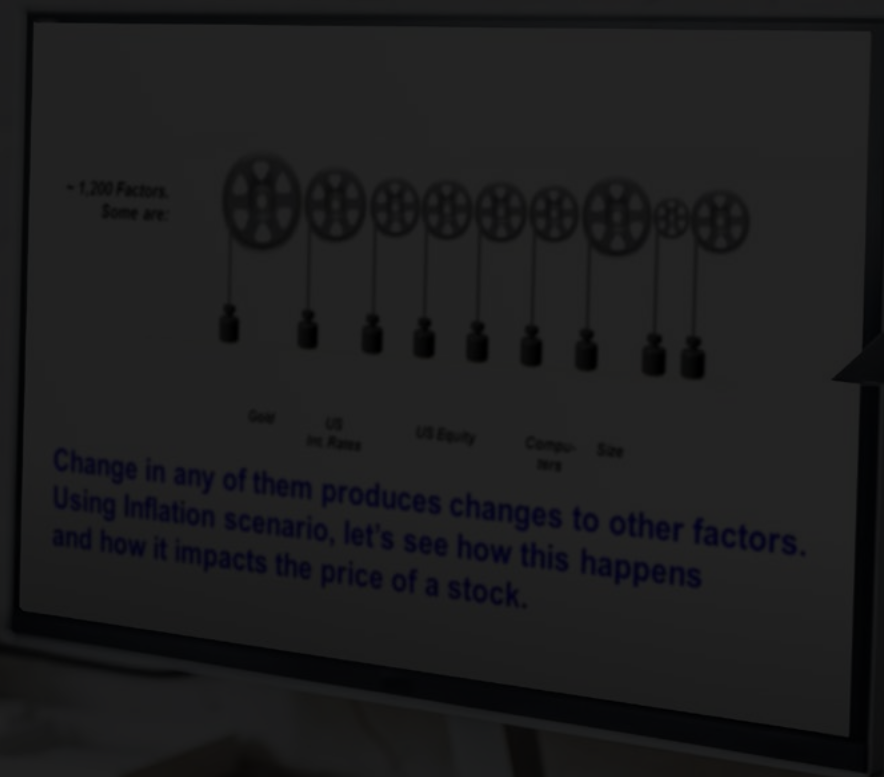
Notice that this infographic is giving more than it is asking, in addition to being simple and easy to understand. Once a person knows more about the need to have a retirement plan then they will refer back to you for more advice and a proper investing direction. And of course, don't forget about videos as video clips are shared 12 times more often on social media than simple text and links alone([source](#)). Here's one creative example depicting a day in the life a financial advisor: https://www.youtube.com/watch?v=5ssUx1PCaQY&feature=emb_logo&ab_channel=OneldiotTV

No matter what method you choose to keep in touch with your clients, it's important that you are catering to them above all else. You should be flexible and easy to reach, while also proactive with them. Maintaining priorities and staying on top of our "always online" world is critical for financial advisors in in the 21st century.

Watch Videos to Learn How Portfolio Stress Testing Works

AUTHOR: DANIEL SATCHKOV

Stress testing is front page news. The Fed stress tests banks, large institutions stress test their portfolios and now financial advisors are using stress testing for their clients. But like most diagnostic tools, proper stress testing has a complex mathematical background. We make it simple for you. In [this video](#) you will learn how portfolio stress testing with a factor model works. And you will be able to explain it to others. With no formulas.



Portfolio Crash Testing PRO

Larkspur-Rixtreme Portfolio Crash Tester will help you explain and manage portfolio risk for any prospect or client. It is the only platform for advisors that is also used by top institutions to manage their risks. Request your personal tour [here](#)

Capital Expenditures vs Share Buybacks: How Do Investors Want Companies to Spend?

AUTHOR: YON PERULLO

In our modern world, there are tons of ways to keep up with your clients and even prospects, and we've thought up a few ways below for you to keep in mind. Whether it's their preferred means of communication or what you should be talking about with them, we hope you'll find some of our strategies below useful:

I recently published an [article discussing an op-ed written by Chuck Schumer and Bernie Sanders](#) where one of the ideas they put forth was to create a (undefined) mechanism to discourage corporate buybacks. Recently Marco Rubio joined in with his own version of the same theme (still scant on details, but at least he said his proposal would focus on tax policy to discourage buybacks and encourage investment). This may mean that there is a bipartisan path forward on a proposal that would discourage companies from buying back stock. The rationale is that by making buybacks less attractive, investment through capital expenditures would be the obvious alternative, especially if there was an incentive tied to such investment. And more capital expenditures are good for the economy.

While corporate buybacks have been getting attention for years, the focus was intensified in 2018 because of the increase in buybacks as a result of the corporate tax windfall. The chart below (Exhibit 1) shows how abnormal the buyback levels of 2018 were. Both the absolute level of buybacks that occurred and the ratio of buybacks to dividends as a means of returning capital to investors was at an all-time high with a 30% increase in the level of buybacks relative 2017. As a contrast, dividend payouts decreased by 6%. But this hides the fact that capital expenditures were also at record levels in 2018 and increased 16% from 2017 levels.

It should be noted that we are using the Russell 3000 (Exhibit 2) as a basis for this comparison. On the more widely followed S&P 500, the level of corporate buybacks outpaced capital expenditures. But using the broader market gauge of the Russell 3000, capital

expenditures were still on top though the ratio of capital expenditures to buybacks was at a low. Meaning that the level of buybacks in 2018 was very high relative to capital expenditures given the trend of the last 11 years no matter the benchmark. Indeed, this ratio has been trending lower for the last 11 years.

One of the points made by Schumer and Sanders was that companies are choosing to do stock buybacks instead of investing in their future. My perspective is that given the choice of sound reinvestment for the future of the company versus a corporate stock buyback, a company will choose investment every time. And investors would, usually, prefer this to be the case. After I wrote the article, I wondered if I was correct – should investors prefer companies that make investments in capital expenditures over those that invest in buybacks? It makes intuitive sense, but when discussing investments, it is best to let the data tell the story.

Luckily, Nasdaq has two similarly constructed indexes I could use as the basis for this comparison. The [Nasdaq Buyback Achievers Index](#) includes companies that have repurchased at least 5% of their assets over the last 12 months and the [Nasdaq U.S. CapEx Achievers Index](#) that tracks companies that have increased their capital expenditures over the last 3 years. The companies are pulled from all US stocks, (not just those listed on the Nasdaq) and are weighted using a 'modified market capitalization' methodology. Exhibit 3 shows the performance of the indexes since March 2007, which is as far back both data sets go.

As seen in Exhibit 3, if someone invested \$100 in an index in March of 2007, they would be better off having invested in the CapEx Achievers Index. In fact,

the \$100 CapEx investment would have increased \$71 more than an \$100 investment in the Buyback Achievers Index over the course of almost 12 years. The bottom line is that the CapEx Achievers index has outperformed the Buyback Achievers index by 220 bps per annum. Note that a company can be in both indexes: it can buy back 5% of stock and increase capital expenditures over the previous three years. Currently only 15 companies are on both lists, but a weighted composite of those companies would have returned almost 13% over the past year (though the individual returns diverge significantly in that group).

The CapEx Achievers Index also has superior risk adjusted returns relative to the Buyback Achievers Index. And it really doesn't matter how you look at it, the CapEx Achievers Index performs better than the Buyback Achievers Index with the exception of one period: from 2011-2014 where the Buybacks outperformed CapEx by 5.3% per annum. But comparing these indexes to each other hides an important point: since 2007, both indexes have outperformed other major broad-based US benchmarks like the Russell 3000 and the S&P 500. (Exhibit 4)

These results made me wonder what environment buybacks would outperform capex companies and when would the opposite would be true? What biases are in the indexes that would enable them to outperform each other and the broad market? The logical place to start is to identify the styles that most defines each index. Styles are commonly categorized by size (large/small) and value/growth characteristics. If an index (or fund) is constructed such that it exhibits a certain style, then this bias will impact performance.

Exhibit 1: Russell 3000 Buybacks, Dividends, and Capital Expenditures

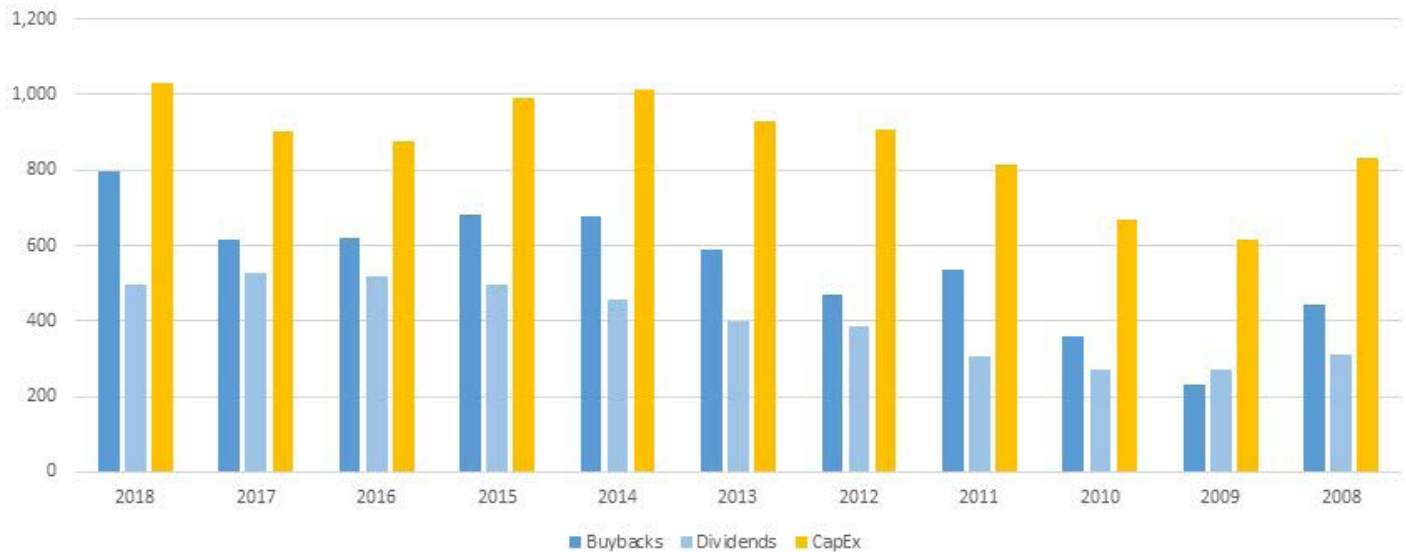


Exhibit 2: Ratio of Capital Expenditures to Buybacks in the Russell 3000

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Capex/Buyback	1.29	1.47	1.41	1.45	1.49	1.58	1.93	1.52	1.86	2.69	1.88

Exhibit 3: Performance of the Nasdaq CapEx Achievers Index vs. the Nasdaq Buyback Achievers Index

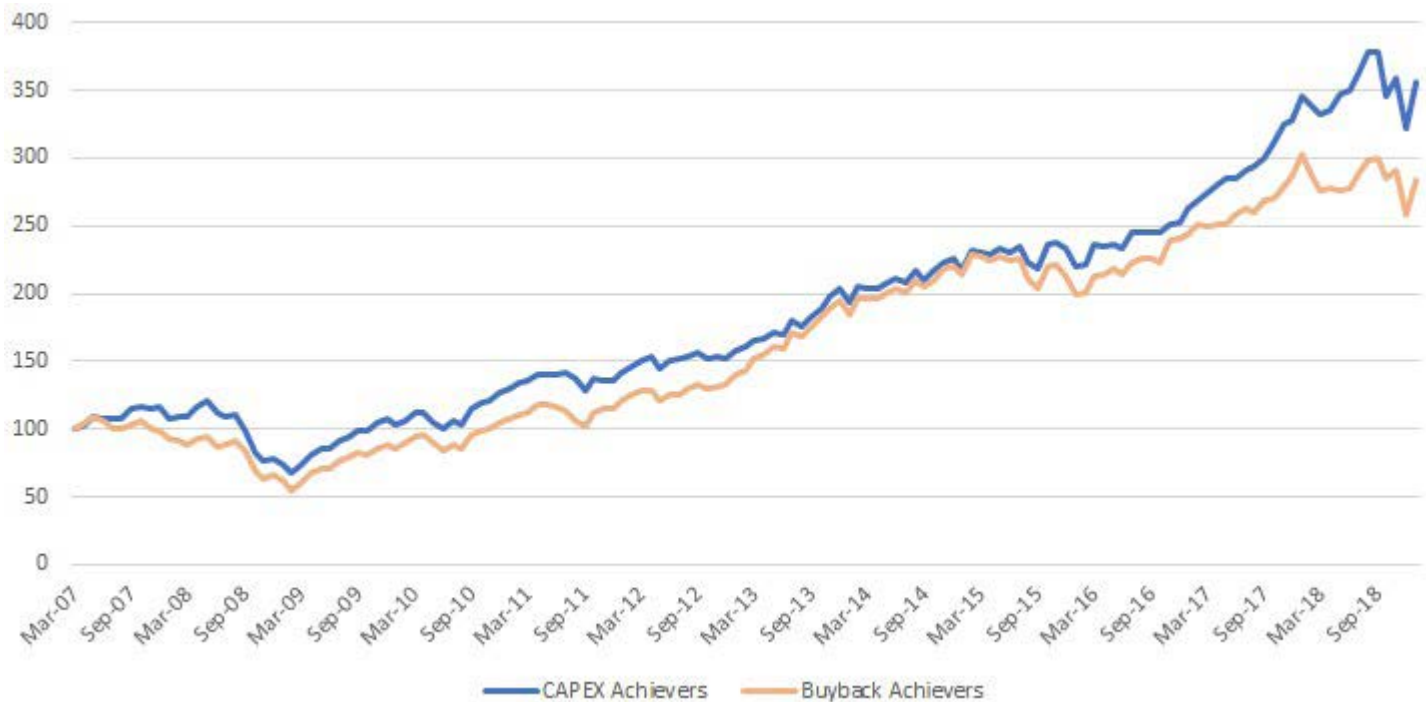


Exhibit 4: Risk Adjusted Performance and Performance by Period

	Russell 3000	CAPEX Achievers	Buyback Achievers	R - 3000 Growth	R - 3000 Value
April 2007 - Jan 2019					
Ann Ret	7.8%	11.3%	9.2%	9.8%	5.7%
Ann Std	15.4%	14.9%	15.9%	15.6%	15.8%
Ratio	0.51	0.76	0.58	0.63	0.36
Period Returns (Ann.)					
4/2007 - 12/2010	-0.6%	6.7%	1.2%	2.4%	-3.7%
1/2011-12/2014	15.3%	15.3%	20.6%	15.5%	15.1%
1/2015-1/2019	8.8%	11.8%	6.4%	11.6%	6.0%

Note: Return calculations assume dividends are reinvested in the index

Exhibit 5: Style of CapEx and Buyback Achievers and Benchmarks

Style	Russell 3000	CAPEX Achievers	Buyback Achievers	R - 3000 Growth	R - 3000 Value
Large Growth	44.0%	85.2%	41.0%	77.7%	8.2%
Large Value	37.3%	0.0%	38.1%	0.0%	77.2%
Mid Growth	8.3%	7.1%	0.0%	15.2%	0.0%
Mid Value	4.5%	7.7%	13.1%	0.0%	9.8%
Small Growth	3.2%	0.0%	7.8%	7.1%	0.4%
Small Value	2.8%	0.0%	0.0%	0.0%	4.4%

Exhibit 6: Correlations of Various Indexes

	CAPEX Achievers	Buyback Achievers	Russell 3000	R3000G	R3000V
CAPEX Achievers	1.00	0.92	0.95	0.97	0.90
Buyback Achievers	0.92	1.00	0.96	0.94	0.96
Russell 3000	0.95	0.96	1.00	0.98	0.98
R3000G	0.97	0.94	0.98	1.00	0.92
R3000V	0.90	0.96	0.98	0.92	1.00

Note: Correlations are monthly from April 2007 to January 2019, the longest common time series.

Exhibit 7: Annual Returns of Various Indexes

	CAPEX Achievers	Buyback Achievers	Russell 3000	Russell 3000G	Russell 3000V
2007*	14.6%	1.0%	4.4%	10.3%	-1.3%
2008	-33.5%	-33.2%	-37.3%	-38.4%	-36.3%
2009	38.1%	32.4%	28.3%	37.0%	19.8%
2010	18.8%	18.7%	16.9%	17.6%	16.2%
2011	6.1%	10.8%	1.0%	2.2%	-0.1%
2012	12.2%	14.6%	16.4%	15.2%	17.5%
2013	34.3%	46.6%	33.6%	34.2%	32.7%
2014	10.5%	13.5%	12.6%	12.4%	12.7%
2015	3.2%	-3.7%	0.5%	5.1%	-4.1%
2016	8.2%	13.6%	12.7%	7.4%	18.4%
2017	30.1%	18.6%	21.1%	29.6%	13.2%
2018	-1.5%	-9.9%	-5.2%	-2.1%	-8.6%

*Return calculation for 2007 is from April 2007 through December 2007 as not all indexes had history for all of 2007

Unsurprisingly, from a style perspective the Buyback Achievers Index looks more like a broad market index while the CapEx Achievers Index resembles a growth index. (Exhibit 5)

This affirms that virtually any company might look to buyback stock when confronted with the enviable position of having excess capital that can't best be used for reinvestment. Buying back stock will return cash to shareholders in a more tax-friendly manner than a dividend and improve valuation metrics like earnings per share (by removing shares from circulation, EPS is increased by shrinking the denominator). Plus, a buyback would be the best way to return capital without obligating the firm to future scheduled payments. Growth companies generally don't pay dividends, so they might be predisposed to a buyback versus a dividend. Another reason that growth companies generally do not pay dividends is because their reinvestment opportunities are often perceived as the best use of capital – shareholders will receive a higher return on the reinvestment than if the company simply pays a dividend. So it is not surprising that companies that increase their capital expenditures when they have excess capital tend to be growth companies.

Using historic correlations as another way to look at bias, the CapEx Achievers Index had an extremely high correlation to the Russell 3000 Growth Index while the Buyback Achievers Index had a very high correlation to both the Russell 3000 and the Russell 3000 Value. The correlation of the CapEx Achievers to the Buyback Achievers was nearly identical to the correlation between the Russell Value and Growth indexes. (Exhibit 6)

Finally, I wanted to look at annual performance of the indexes (Exhibit 7). Interestingly, in 2018 when buybacks received the most attention, the Nasdaq Buyback Achievers Index was the worst performing index examined, losing 9.9% for the year. This could be because there were so many companies doing buybacks that investors didn't see this as an important consideration when investing. Possibly, stocks doing significant buybacks were punished because investors perceived that there was better uses for the cash than a buyback. Whatever the case, investors have already weighed in with their opinion that they would prefer companies to invest their windfall rather than buyback stock.

To answer the original question – should investors prefer companies investing through capital expenditures to those doing buybacks? If the last 11+ years is any indication, then yes, from a pure return and a risk adjusted performance perspective, the Nasdaq CapEx Achievers Index was the best performing index indicating that investors do indeed prefer that corporations invest in capital expenditures. But the last 11+ years have favored growth companies and investors need to be aware of the growth bias in this index. In a period where value outperforms growth, the CapEx index could certainly underperform.

Note that the folks at Bloomberg Intelligence also wanted to answer this question and published an article with similar findings (subscribers to Bloomberg Professional, please see article titled “High Capital Spending? There’s No ETF for That”).

13 Questions Retirement Plan Advisors Should Ask Plan Sponsors

AUTHOR: DANIEL SATCHKOV



Retirement Plan Advisors usually have their own personal methods and strategies in their business practice when approaching retirement plans. Advisors who represent the interests of retirement plans must take on a role of an advocate for the plan. Those who possess all of the necessary information and tools must keep the sponsors updated on the changes (no matter how small) that might impact plan holdings and its participants. Do not forget that trust is the most important asset when it comes to plan advisor and plan sponsor relationship.



To stay ahead of the competition and current trends to become a plan advisor of choice, every advisor should be ready to ask these questions while approaching a plan sponsor:

1. Does your current adviser have any conflicts of interest with the plan investments and/or did they tell you?



2. How educated are your participants about what they are actually invested in?



3. What level of planning does your current advisor provide to your participants?



4. Does your current advisor help participants with portfolio selection customized to the participants' situation?



5. Ask a plan sponsor if they've recently done a diversification or cost analysis on their plan. Be sure to read more about it here: [Quick Guide: Asking Plan Sponsors the Right Questions](#)



6. Is the current plan lineup meeting the needs of participants?



7. Did you examine the needs of your participants when choosing the glide path for your target date family?



8. Do you know, what is the acceptable level of risk your participants are willing to take for returns offered by Target Date Funds?



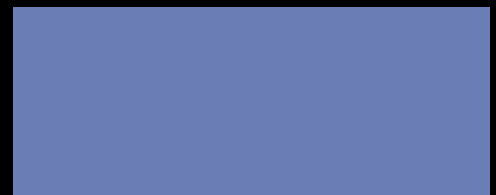
9. How well is your advisor paying attention to the diversity of your plan investments and adhere to 404c ERISA compliance?



10. How often your adviser reviews and adjusts the allocation of your plan investments according to their current market circumstances?



11. Are your employees that are getting ready to retire maxing out their contributions?



12. Do you have enough money in your Fidelity Bond to protect you in case of legal trouble for the plan?



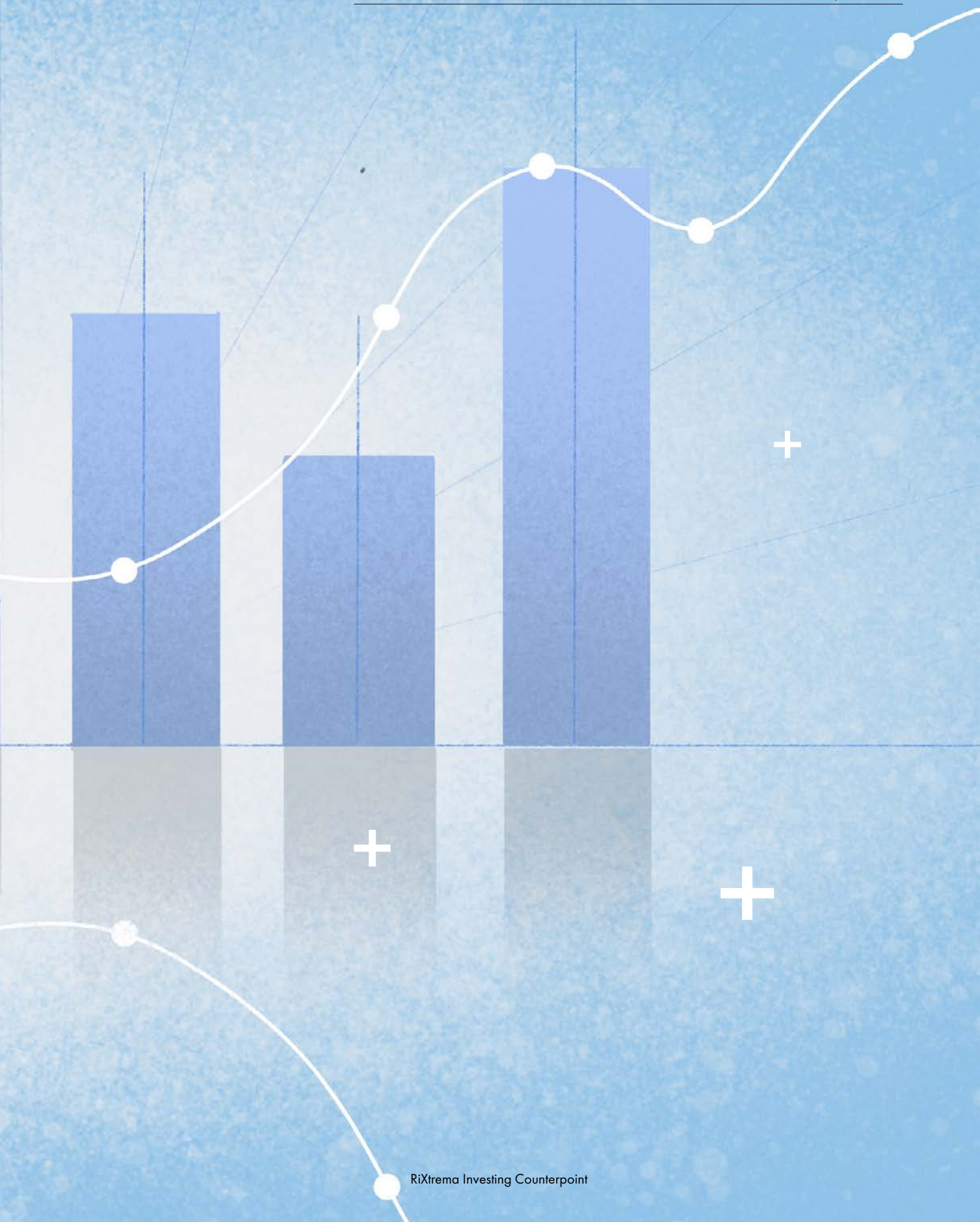
13. Do you offer in service withdrawal?



Pros and Cons of State Fiduciary Rule Initiatives

AUTHOR: DANIEL SATCHKOV

In 2019 with the [*DOL's fiduciary rule*](#) in the ground, individual states are starting to pick up the mantle. Is this ongoing trend a positive or a negative one? Here are a few ideas for you to consider first:



PRO



Small scale testing

Looking back at the old DOL rule, there was a lot of debate about its effects from many different stakeholders. This is to be expected because there is a high level of uncertainty about what the long term effects of such a policy will be.



The advantage of having fiduciary rules on a state by state basis is that different states can experiment with different variations. This will allow small scale testing of which policy delivers the best outcomes rather than subjecting the entire country to a single policy. State will then be able to adjust their policies to model the other states which had the best outcomes.

State based fiduciary rules avoid the risk of having all the eggs in one basket, because if there is a flaw with a nationwide rule then everyone will suffer.

More Options

Since some states (Nevada, [Maryland](#), etc.) started to propose their own fiduciary rules soon after the Department of Labor's uniform rule of conduct was cancelled last year, it's getting obvious that specific states are looking for protection of their investors and retirees. No federal law can guarantee that as much as local rules, because each state legislature includes too many nuances not specific for any other state. Hence it makes it far more difficult for the national law to provide the best practices that could regulate fiduciaries' rights and responsibilities on a state level.



According to Kenneth Bentsen, President and CEO of the Securities Industry and Financial Markets Association (SIFMA), creating individual state laws is not the best way to handle the situation, because a common nationwide, best interest fiduciary standard provided by the SEC would be more preferable than any state laws and rules that could result in investor confusion, less access to information and choice of investor products. However, a uniform federal law would provide more options for retirees and investors, whether it concerns fee-for-service model or commission-based services.

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Back to the (DOL Fiduciary Rule) Future

The pro argument states need to advance their own fiduciary standard can be based on the same premise as proposed by the original DOL fiduciary rule scheduled to be phased in from April 10, 2017, to January 1, 2018. As of June 21, 2018, The U.S. Fifth Circuit Court of Appeals officially vacated the rule, effectively killing it. The fiduciary rule would serve investors who will be seeking advice about financial planning by protecting their best interest. It is well investigated and documented that a lot of consumers who seek financial advice simply do not know enough about the industry and its processes to make good decisions. So, they put their trust in the advisers they hire. Asking advisers to act in the best interest of the client is absolutely a norm which everyone should support and honor.

+

CONS

Lowest Common Denominator

If a firm has offices in many states and each state has different levels of fiduciary standards, then a firm may have to endure increased costs associated with the administration. However, what is likely to happen is that firms will adopt one policy nationwide to help reduce these costs. If there are 50 different fiduciary rules, which one will a firm choose to follow?

What might happen is that one state will have a stricter version of the fiduciary rule than another state. These companies will have to adopt the strictest version of the rule so that they are covered in that state plus all the less strict states.

This can be a problem because it will subject the nationwide firms, not necessarily to the best version of the rule, but, to the whims of whichever state decides to be the most regulative.

More State Rules, More Problems.

As states all start to add their own versions of the fiduciary rule, one of the biggest potential problems is how purely complicated things can become with even more regulation. While the concept of the regulation itself when the DOL was doing it made broker-dealers everywhere in fear, now it has the chance to be even more of a massive bureaucratic burden. When the DOL was going forward with their rule, at least there would be only one set of regulation for these parties to understand and adapt to, but with each state making their own rule this will be multiplied even more.

Each state will have its own specific regulation that broker-dealers will need to adapt to in that space, each with its own loopholes and exceptions to understand. In general, this could even confuse laymen investors even more because there will be so many different concepts of what an “advisor” is and who they can trust as a fiduciary. Sticking with just one fiduciary rule from the DOL may have been a good idea at the heart of it, but with more rules will come even more problems.

More Red Tape

The major con is imposed by the core of Fiduciary Duty term and consequently raised explicit requirements. The new rules may put some severe restrictions on financial services practices and may open financial advisors and planners to more risk of litigation in clients operations. It is obvious that new standards will put a greater burden on the advisors of all sorts. An overhauling of contracts and pricing schemes, as well as the reviewing standards and practices and rewriting guidelines, could cost a significant amount of time and effort from financial services workers, bringing forth more confusion and leaving them vulnerable to court challenges.

CONCLUSION

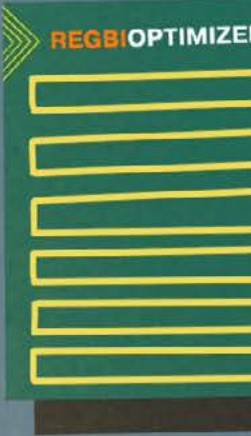
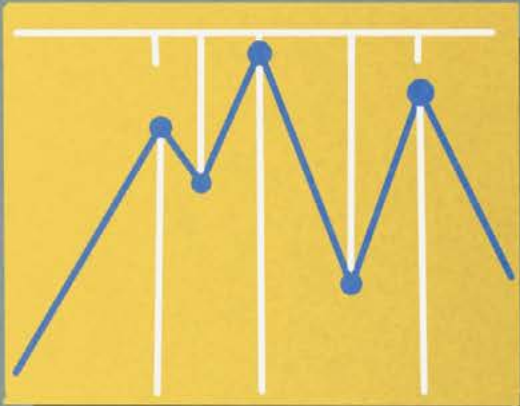
Whether you’re in favor of having this kind of fiduciary rule enforced or not, it’s unquestionably going to bring in more bureaucratic red-tape. As ever, a clearer fiduciary standard will be helpful for the common investor on distinguishing a broker from an RIA, but is going with individual state regulation the right path? That’s a question we’ll soon be finding out in 2019.

Client Relationship Summary (CRS Form) Checklist

AUTHOR: COLIN WARD

Reg-BI To-do

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-
-
-
-
-



RiXtrema's Regulation Best Interest researchers created this checklist to get your gears turning toward compliance. It is not a substitute for consulting a legal or regulatory compliance office, but we feel it's a suitable starting point. You must file the CRS Form with the SEC and freely provide it to all of your firm's customers and clients by June 30, 2020. The CRS Form is essentially the 8 parts below. Before filing ask yourself whether each section in your form contains the outlined components.

1. Introduction:

- ☐ The name of the BD or RIA, and whether the firm is registered and with whom;
- ☐ an explanation as to how BD and RIA services and fees are different and how retail investors can understand the difference;
- ☐ free and simple research tools to investigate firms and financial professionals at the Commission's investor education website (investor.gov/CRS);
- ☐ a list of tools that can guide the client to research firms and financial professionals

2. Description of relationships and offered services:

- ☐ a list of all services and advice offered by the firm, even if the investor does not qualify for some products
- ☐ all relationships with the services offered to retail investors

3. A statement of the applicable conduct standard associated with the services:

- ☐ Do you provide an example of how the firm makes revenue and any relevant conflicts of interest to do so?

4. Fees and Costs:

- ☐ Do you describe the fees and costs associated with BD and RIA accounts and the conflicts they create?

5. A Comparison of BD and RIA services for firms that are not dually registered:

- ☐ Do you state where retail investors can search for more information about their BD and RIA services?

6. Conflicts of Interest associated with the firm's relationship to its services, fees, and other BDs and RIAs.

- ☐ Do you disclose conscious and unconscious conflicts of interest?

7. Legal and disciplinary events:

- ☐ Do you disclose whether your firm has any history of disciplinary action?
- ☐ Do you provide information, like tools or sources, to guide investors who want to research any events further?

8. A list of prescribed "conversation starters" for investors to ask?

- ☐ Do you have answers prepared for the questions, if a retail investor asks?
- ☐ Are the questions prominently displayed with larger fonts, different typeface, bold, etc.?

The SEC requires the following questions to be included in this section:

- What is your relevant experience, including your licences, education and other qualifications? What do these qualifications mean?
- Help me understand how these fees and costs may affect my investments. If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?
- How will you choose investments to recommend to me?
- Given my financial situation, should I choose an investment advisory service? Why or Why not?
- How might your conflicts of interest affect me, and how will you address them?
- As a financial professional, do you have any disciplinary history? For what type of conduct?
- Who is my primary contact person? Is he or she a representative of an investment advisor or broker-dealer? Who can I talk to if I have concerns about how this person is treating me?

Other considerations:

- ☐ Is your final CRS Form two-pages (four pages for dual registrants)?
- ☐ Is your document delivered in plain language and shows it considers the retail investor's level of financial knowledge?
- ☐ Do you have a filing process that will provide the form to the SEC before June 30, 2020 and keep it updated?

Contact us at clientsuccess@rixtrema.com to receive a free eBook. Our Reg-BI eBook is a comprehensive guide written to inform you about all the components of Reg-BI in just 20 minutes.



The Deep Internet: Why Bitcoin and Crypto Must Beat Centralized Platforms or Die

AUTHOR: DANIEL SATCHKOV

There is a great deal of content about cryptocurrency and blockchain, so why read this article? To put it simply, it will make sense of the future of cryptocurrency for you. Pretty ambitious. Did I forget Yogi Berra's (or was it Niels Bohr) admonition that: "Making predictions is hard, especially about the future"? No, I did not. But I would argue that we can reduce the future of cryptocurrency to only two paths. Either cryptocurrency projects find a way to overtake centralized platforms such as Google, Facebook and others or crypto will remain a darknet curiosity. I will focus on the first and a more productive path. I have no way of knowing where the history will go, but it is my strong conviction that you will see cryptocurrency and blockchain disrupt the Deep Internet. And it will not be done through endless speculation and hype.

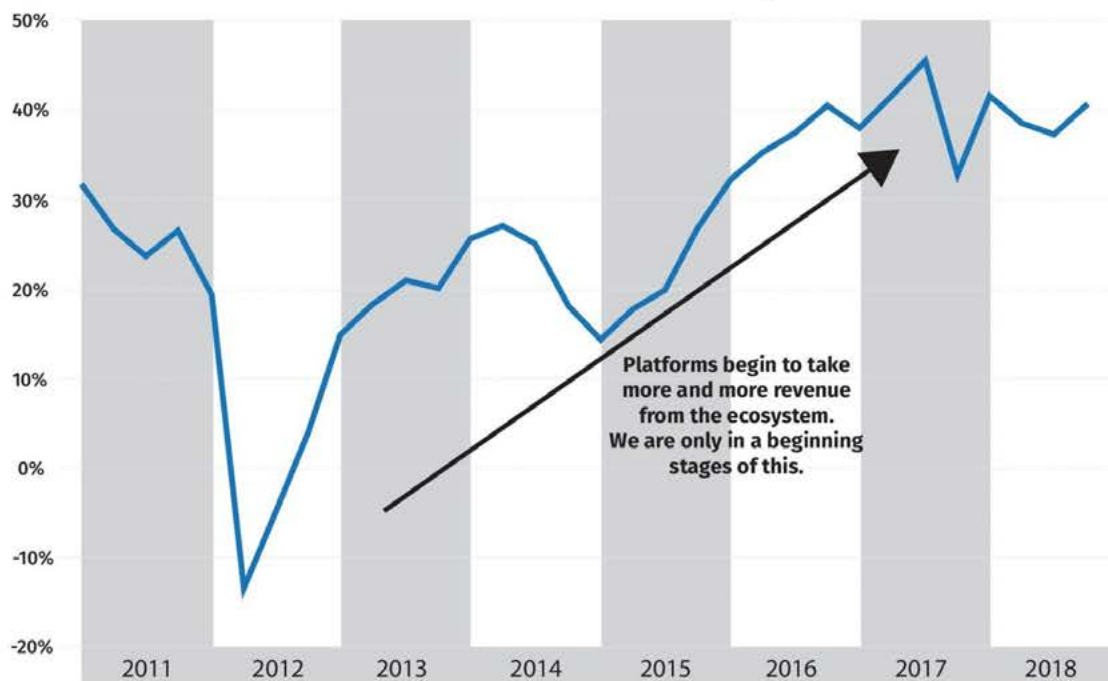
NICE PLATFORM

BAD PLATFORM



Facebook Rolling 12 Months Profit Margin

This is the revenue that Facebook keeps



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Can crypto currency create fair platforms and become medium of exchange directly into value?

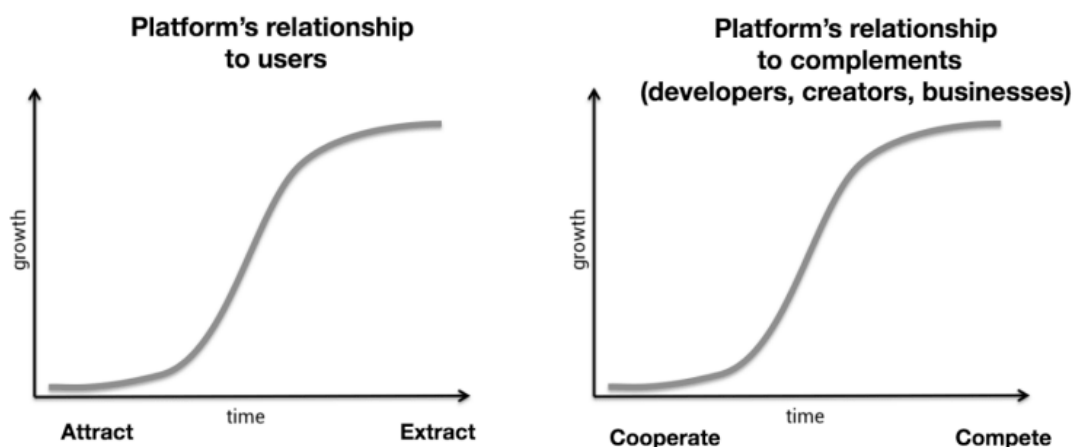


I will show how cryptocurrency can be used to build platforms without corporate entities running them. To my mind, this possibility is the biggest benefit of the cryptocurrency technology and it holds a secret for massive value creation, which will have incredible benefits for the society as a whole. On the other hand, cryptocurrency cannot become people's money or even approach that status in the current paradigm of a mere digital value transfer and storage. This is not nearly enough to become money and to compete with fiat currencies.

Platform is a kind of business that brings together producers and consumers of value. It typically owns no inventory, doesn't produce anything. Instead it matches different sets of participants and mediates between them. Platforms have been taking over the business world for decades now. Facebook and Twitter match content creators with those who want to consume that content, be it relatives and friends checking out family photos, or someone reading news. Uber brings together taxi riders and drivers without owning any taxis. Airbnb brings together housing owners and travelers without owning any real estate. Google search engine brings together websites and web surfers, while YouTube... Well, you get the point. But established platforms have a nasty little secret that is now getting out.

In a 1984 movie *The Gremlins*, a struggling inventor encounters a small, furry and a very likable creature called the Mogwai (Gremlin). He takes one home, but is warned to never expose it to sunlight, as it will die. He is also warned not to throw water on it or feed it after midnight. Getting wet or fed after midnight turns this cute little creature into a rampaging monster.

Where was I? Oh yeah. When social networks like Facebook, Youtube and Twitter first appeared, they were cute little toys and it seems all they wanted to do was to give you lots of free stuff. But it looks like they were fed after midnight... Rampant blatant censorship, margin growth at the expense of creators, repeated violations of privacy to manipulate users, allegedly fooling advertisers with fake views and fake accounts (almost half of them according to a recent study). In a fantastic article "Why Decentralization Matters" Chris Dixon shared this illuminating and simple infographic. It is a polite way of telling my Gremlin joke about platforms.



Source: <https://medium.com/s/story/why-decentralization-matters-5e3f79f7638e>

My main thesis is that cryptocurrency technology must provide an alternative to centralized platforms in order to survive. Otherwise it will never achieve the necessary characteristics of money.

In order for something to be considered money, it has to satisfy three broad criteria. It must be a:

- Store of value
- Medium of Exchange
- Unit of Account

In Bitcoin's history the focus has been on the store of value due to the limited supply built into the algorithm. It is viewed as a hedge against central banks 'printing money', a kind of digital gold. Clearly, this limited supply characteristic is crucial to Bitcoin, no argument there. However, in order to store value, something must have value in the first place. Limited supply feature of Bitcoin can create a public rush and a massive bubble, as we saw during the 2017-2018. The downhill stampede was just as stunning. This leads Bitcoin's critics to reasonably ask: what value can you actually store in an instrument that loses 85% of its value in a year? Critics do have a point. There are certainly instruments that store value, but are not used as medium of exchange. Antique wine, paintings, collectible cars. But all of them have some significant and unique cultural meaning.

A Bitcoin cryptographic key does not! In order to store value reliably cryptocurrency must get there the difficult way, by actually building some value into it. We will soon see what this means in practice, but for now think of it like gold also serving as jewelry. If cryptocurrency has some built-in value way, it will naturally become a medium of exchange in people's lives. However, when people talk about cryptocurrency and medium of exchange, they typically think of it as simply replacing traditional currency or payment systems like VISA and Mastercard. Hence endless arguments over whether Bitcoin can or should be used to buy your daily cup of coffee and replace credit cards altogether. Hint: not likely! Why would people use it instead of their credit cards? Cards are pretty convenient. Yes, they have high fees for merchants, but they do mediate fraud issues. Intermediaries in the cryptoFX world who would mediate and insure both sides against fraud would likely charge

fees as well. I am not saying there is no value there, just that there is not enough obvious value for consumer to incur the pain of switching away from credit cards. So, is cryptoFX doomed to be a hedge against catastrophic failure of traditional central bank policies as it is now? If so, that would be pretty sad and limiting.

I believe there is another way. Cryptocurrency can disrupt centralized platforms the way those platforms disrupted traditional vertical businesses.

Platform businesses like social networks Facebook, Twitter, YouTube, as well as platforms like Airbnb and Uber thrive on their relatively low costs and efficiency. Passing these savings on to the users by giving them a less expensive or even free service is how they disrupted traditional businesses. But the picture is not static. Less of a Van Gogh and more of a window of a fast moving Tesla. Gigantic platforms of today captured massive market share during the period of low interest rates and easy capital. This enabled them to provide amazing inexpensive or free products to obliterate competition. Easy capital allowed to them to run on near zero profit margins and subsidize growth. Regulatory landscape with infinite financing allowed them to parlay this capital into virtual monopolies through buying any company that would threaten to compete. But the era of ultra low interest rates is slowly coming to an end. Public and regulator agencies are slowly waking up to the danger of these massive internet monopolies. However, in the absence of blockbuster growth, sky high valuations need to be justified with earnings and capital will no longer be free, so margins have to rise. This means that all users of the platform will be squeezed harder and harder to allow for these margins to materialize. Virtual monopoly position will enable this behavior, because any

competitor offering a better service will simply be bought with massive cash stashes and regulators will look away (at least for the time being). The trend is unmistakable and I believe that the blockchain technology is just about the only thing that can offer an alternative. Why?

Essentially, cryptocurrency and blockchain is a pure platform technology. That is what it does. Its only goal is to bring participants and exchange value between them, with money being merely one of many kinds of value. Because a blockchain platform runs on computers of individual participants who do not need to obtain permission, it requires far less capital investment than a tech platform such as Facebook or Twitter. And because it is not owned by any legal entity, it cannot be acquired to make it go away. If someone wrests control of a decentralized platform to subvert its goals, the open sourced nature of the platform allows users to refuse to play along and stay with the version of the software they like. In other words, the future of a cryptocurrency platform is in the hands of the participants, while centralized platforms are fully in the hands of their owners. If such a platform can really be based on a blockchain with cryptocurrency as its native unit of value, then that cryptocurrency will naturally become a medium of exchange for value on that platform, thus fulfilling the crucial criteria of money. This is the only path where crypto will achieve this crucial characteristic of money and not in some hopeless competition with credit cards based on uncertain convenience. Just like there are many currencies in the world, so we can live with an ecosystems of hundreds of truly valuable tokens. But their value will not be based on hype and solutions to nonexistent problems, but rather on tangible value generated in the platform.

401(K) FINTECH FOUNDERS DEBRIEF 2021 **FREE** BONUS SESSION

WHAT WORKED AND DID
NOT IN 2020 & FUTURE
OF 401(K) FINTECH IN 2021



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2021

Follow These 4 Simple Steps to Win Over Prospects and Grow your Practice

AUTHOR: DANIEL SATCHKOV

Over the years we have developed an extensive database of 401K plan menus and the contact information for executives that work at the plan sponsor. By combining this information with our Portfolio Crash Testing (PCT) tool, you have a powerful prospecting platform that gives you the ability to tailor a unique pitch. Here's how it works:



For most advisors, winning new business is one of their toughest jobs. With an estimated 250,000 advisors prospecting the same leads that you are, it can be difficult to stand out from the pack. So how can you start a conversation that helps you differentiate your value proposition from other advisors?

At Larkspur-Rixtrema we have thought a lot about this challenge and we have created a product called Prospects of Wealth 2.0 that we think can help, though our approach may be a bit unorthodox. We started by asking “What if we could develop a tool that enabled our clients to pitch a prospect with relevant information about assets the prospect likely holds?”. This would allow you to show portfolio risk and potential challenges the prospect may face in certain scenarios using assets that they are familiar with. You could immediately demonstrate your value proposition to a client in a more concrete way.

For about 1.2 million executives in the US, we can help do exactly that. Of course, we can't get the portfolios these executives hold, but we can get close. At least close enough that the conversation is relevant and will hopefully compel the prospect to pay attention to your pitch.

Over the years we have developed an extensive database of 401K plan menus and the contact information for executives that work at the plan sponsor. By combining this information with our Portfolio Crash Testing (PCT) tool, you have a powerful prospecting platform that gives you the ability to tailor a unique pitch. Here's how it works:

1. Find a prospect in your area using our search tool.

Email address, social media accounts and phone numbers are provided when available, and e-mails can be requested (yes, we will find the e-mail address for you).

PROSPECTS OF WEALTH 2.0

My Leads

Name, Occupation	Contacts	Emails	Available Plans	Social Accounts
<div><div><div></div><div>+</div></div><div><div><div>Robert Davis</div><div>Senior Vice President of Accounting & Finance, SAN FRANCISCO FIRE CREDIT UNION</div></div></div></div>	<div><div>Phones:</div><div>(415) 674-4800</div></div>	<div><div>rsato@sffirecu.org</div></div>	<div><div>SAN FRANCISCO FIRE CREDIT UNION 401(K) PLAN & TRUST</div><div></div></div>	
<div><div><div></div><div>+</div></div><div><div><div>Robert Davis</div><div>Chief Marketing Officer, THE WEISSCOMM GROUP LTD DBA W2O GROUP</div></div></div></div>		<div><div>Request Email</div></div>	<div><div>W2O GROUP 401(K) PLAN</div><div></div></div>	<div><div>in</div></div>
<div><div><div></div><div>+</div></div><div><div><div>Robert Davis</div><div>Chief Digital Officer, THE WEISSCOMM GROUP LTD DBA W2O GROUP</div></div></div></div>		<div><div>Request Email</div></div>	<div><div>W2O GROUP 401(K) PLAN</div><div></div></div>	<div><div>in</div></div>
<div><div><div></div><div>+</div></div><div><div><div>Robert Davis</div><div>Senior Vice President of Member Experience, SAN FRANCISCO FIRE CREDIT UNION</div></div></div></div>	<div><div>Phones:</div><div>(415) 674-4800</div></div>	<div><div>ajones@sffirecu.org</div></div>	<div><div>SAN FRANCISCO FIRE CREDIT UNION 401(K) PLAN & TRUST</div><div></div></div>	<div><div>in</div></div>

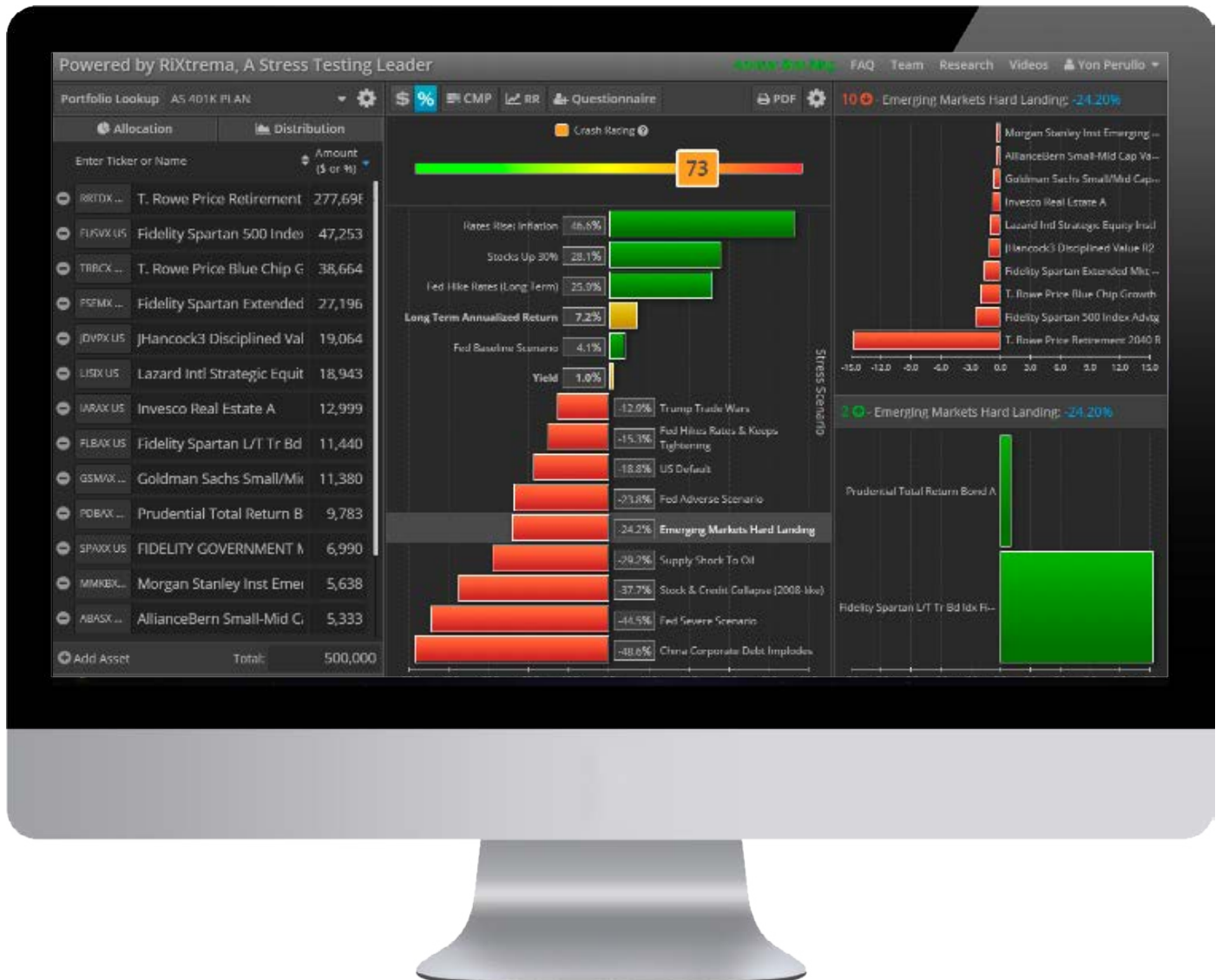
2. Click on the hyperlinked Plan (in the Available Plans column) to launch the Plan menu in PCT

PROSPECTS OF WEALTH 2.0

My Leads

<

3. Examine the Plan using Portfolio Crash Testing's robust scenario analysis, RetireRisk functionality, and portfolio comparison tools. Of course, the Plan menu does not contain the exact allocation of your prospect, but the funds are certainly familiar and are key holdings in the prospects retirement portfolio.



4. Create your message. Pitch the prospect. Win more business.

Prospects of Wealth 2.0 also contains the names of an additional 5 million wealthy individuals with

wealth indicators (i.e. luxury yacht ownership), contact information, mailing address, etc. so that you never run out of leads. We have changed the way advisors use risk management and prospect.

These processes used to be artificially separated workflows that belong together. If you have a great prospect, assessing risk of the portfolio will help in bringing them onboard. Portfolio Crash Testing with Prospects of Wealth brings all of this together. Become a trusted and successful advisor with Portfolio Crash Testing/Prospects of Wealth combo. Prospects of Wealth 2.0 is now officially released. You can request your demo at the link below and receive a combo of 5 million prospects with detailed data along with sophisticated risk management solution to win them over:

**Schedule Your
Demo Today**

Suggested New Client Questions for Financial Advisors

AUTHOR: DANIEL SATCHKOV



There are a lot of questions must be asked by advisors when they meet with a qualified prospect or a new client. Here are a few that are quite important, along with some reasoning behind them.

Background Questions

- Have you ever used an advisor before?
- Why do you think you need professional help?
- Why did you choose me?
- What would it take for you to fire me?

These types of questions will allow you to discuss and remove any unrealistic expectations at the beginning of the relationship. This will help to prevent any disagreements in the future because you will always be able to refer back to what was discussed during that first meeting. Another advantage of these types of questions is that it allows the advisor to have the client to start to think about the value in which the advisor provides.

What is your risk tolerance?

Knowing the risk tolerance of a client helps to set the path to designing a comprehensive plan to achieve financial goals. It must be clear to a client that additional investment rewards come with more risk asserted in the investment portfolio. It is utterly impossible to make a lot of money without taking much of the risk because there is no magic bullet when it comes down to investing. An advisor can prepare various asset allocation options to go over with the client explaining potential risk and reward ratio based on the financial goals set to be achieved.

Additionally, risk tolerance must be explained in the frame of the big picture taking into consideration other individual factors like age, income, family status, financial goals, etc. This is important since the risk

profile would be different for a young professional who starts on the path to building an egg nest than someone who is approaching a retirement with enough wealth accumulated in their accounts.

Where do you currently stand?

Any client is a person looking for advice on their investments, so the first questions asked should be about their current investment portfolio, whether they are invested into a 401(k) plan or if they look to roll over into an individual retirement account (IRA). Knowing your client's investments is a key to successful communication, as you'll be able to provide a high-quality assessment of their risks and give a good piece of advice on the improvement.

When you get your clients' portfolio you can kindly provide your help and suggest any steps that could potentially save their wealth from a crash. As soon as they're convinced and start trusting you, you'll get their attention and they'll be more likely to sign a contract with you. Don't hesitate to share some free advice on the first step of your communication, as trust is worth more than money, and successful communication is the key to success.

Build trust through questions

When it comes to interaction with a prospect or a new client establishing a relationship based on trust is impeccable. Yet while you cannot build trust in one day, you can start building a foundation for it from the start. In addition, to your usual questions about their

financial vision and goals, make room for questions with a light scent of psychology to establish a good advisor-client relationship. For example, to get your client to open up you may start by asking about their vision of a good advisor-client relationship.

This will reveal if you blend well to work with the client and what steps to take towards a comfortable relationship. Open-ended questions about a client's dreams/hopes will enable you to learn more about how you can help your client. Also, ask your new client what keeps them up at night. This way you will help them to prioritize top concerns and help yourself when thinking of a plan tailored for that person.

Side questions to get to know their values and hobbies will also work well to reveal the type of person your client is. These are just a few general suggestions that are a great first step in establishing a long term relationship with new clients for years to come.



10 Hidden Features of Larkspur-Rixtrema You Need to Know About

AUTHOR: DANIEL SATCHKOV





“EDIT ADDITIONAL FEES”.

We can compare fund expenses in the [401kFiduciaryOptimizer](#), but how can we factor in the rest of the plan fees for a really true compensation? To do this, click on “Summary” and you’ll see a button in the top right “Edit Additional Fees”. Here you can enter advisor fees, record-keeper fees, tpa fees, custodian fees... etc, for the existing plan and the new plan.



THE NEW EXECUTIVE REPORT.

We’ve scoured the web to find additional (high-level) contacts at these companies and in many cases you’ll find 5 or 6 contacts with pictures, job title, email, a link to their LinkedIn account. No email address? No problem. Click on “Request Email” and we’ll find it for you! In the Executive report you’ll also find additional phone numbers, company website/Hoover’s profile and links to the company’s social media accounts (Facebook, Twitter, LinkedIn, Instagram... etc) All of this helps you to know the prospect better BEFORE your first meeting. Another great feature is that if you add your own LinkedIn credentials, we’ll show you any connections you have at that company, so you can ask for referrals, introductions and you can learn more here: [*You need a process to win more plans.*](#)



“WEALTHCRASHTEST”.

Probably the most not so well-known feature of PortfolioCrashTest is the “WealthCrashTest”. Advisors can send out invitations or just make a link/widget on their website for clients/leads to sign up and then upload their own portfolio to crash test it. Especially with release of POW 2.0 and advisors being able to access email addresses, this could be a great way for advisors to send a link to use WealthCrashTest and get leads to upload their portfolios and see how their portfolio would hold up.



THE ABILITY TO COMPARE A 401K PLAN’S ORIGINAL MENU AGAINST ANOTHER PLAN INSTEAD OF JUST THE “OPTIMIZED ALTERNATIVES” USING THE 401KFIDUCIARYOPTIMIZER.

You can just uncheck the top left check box and then select any plan menu that you have pre-loaded. That way if an advisor has an entire plan menu that they want to compare against instead of just based off of similarity. They can get the same breakdown of fees, performance, etc. without having to just make a 1 for 1 comparison of each fund. This is especially useful if the plans have a very different number of menu options.



TOOLS FOR A COMPREHENSIVE ANALYSIS.

Not all advisers, but a lot of them come across exotic holdings in the portfolios of their clients like options, private equity/debt funds, non-traded hedge funds, non-traded REITS, variable and fixed annuities, etc. Providing an intelligent analysis of how these types of assets can affect portfolio risk and performance can be a pivotal point to win a prospect or impress the client. Using RiXtrema IRAOptimizer or Portfolio Crash Test tools allows putting together a comprehensive analysis of such assets inside of portfolio for any client and/or prospect.



TDFOPTIMIZER THIS IS A GREAT WAY FOR EXISTING USERS TO GET EXTRA VALUE FROM 401KFO.

To offer existing value to current plans the advisor holds by allowing the TDF family to be assessed quantitatively. This is important because for most plans, the majority of the plans assets are held in TDFs.

THE TDFOPTIMIZER ALSO OFFERS VALUE TO ADVISORS FOR PROSPECTING,

by allowing the advisor to tell the plan sponsor about how they will survey each participant to reassure the plan sponsor that they can lower their fiduciary risk by assessing and ensuring the best selection of TDFs for the participants.



FEE BENCHMARK.

401k Fiduciary Optimizer has a hidden tool providing information on average advisory fee based on the plan assets and zip code of the plan the advisor is working on. Fee Benchmark can be found at the very bottom of the Edit Plan section. It shows the fees breakdown for different advisors parsed from their recent statements, the source can be viewed, criteria can be changed. Overall percentage represents nationwide fees, local number is for the fees charged locally. This is just an average number, but can be used in for the calculation, to make comparison of two plans (current and proposed) more precise.



HERE ARE THE MOST DISTINCTIVE FEATURES

Here are the most distinctive features of the 401kFiduciaryOptimizer [Performance Report](#)

CRASH RATING

Crash Rating is a number used to measure the risk of a portfolio. It is a representation of the loss a portfolio may incur during our worst stress-testing scenarios. Here is [What you need to know about the Crash Rating in Portfolio Crash Testing.](#)



Why 401k Participant Education is Vital for Plan Sponsors

AUTHOR: DANIEL SATCHKOV



A Plan Sponsor has many responsibilities. A good advisor can assist by helping the plan to reduce fees and meet fiduciary obligations. Ultimately the goal of the plan and the Plan Sponsor is to help set their employees up for a well-funded retirement.

A high-performing and low-fee plan menu is great for the plan participants. The problem however is that not all participants are the same. Here are some of the key reasons why participant education is important for the participants and ultimately also for the plan sponsor when choosing an advisor to work with.

After health insurance, retirement benefits are the next most expensive employee benefit paid by employees. No company would want to see this huge investment in their employees future not optimized. It would be a significant blow to a hard working employees' motivation if their nest egg, which they have sacrificed to build, bursts.

A LACK OF EDUCATION CREATES UNCERTAINTY WHICH CAN REDUCE PARTICIPATION AND CONTRIBUTION AMOUNTS.

Employees who understand the benefit of contributing more, especially when younger, will benefit greatly from the miracle of compounding interest. An employee will appreciate this employee benefit more, at no cost to the company, if they are educated to on the importance of contributing more.

The problem is that the participants are reluctant to invest more if they uncertain. This is where a plan

advisor can discuss with the plan sponsor, methods of education to reduce this uncertainty. Participants educated on how diversification can help to reduce risk is a key example of how to reduce this uncertainty. Increasing participant contributions will be a win for the participant, the advisor and the employer.

A survey from Schwab found that 52% of participants didn't have the time, interest, or knowledge to manage their 401(k) portfolio. The same study found that 56% of participants don't review plan related education materials. Read about the [Schwab study results here](#). Find some great tips on how to effectively educate participants.

PARTICIPANT EDUCATION HELPS TO REDUCE POOR PARTICIPANT BEHAVIOR.

Research from Columbia Business School found that about one third of participants just allocated evenly across their funds. Other irregular participant behavior is that the more options in the plan menu, the more likely the participant is to choose a money market or equivalent fund. These behaviors result from lack of education and the participants taking decision making shortcuts.

Poor participant decisions and behaviors are not in anyone's interest. The lack of the necessary understanding to make good decisions resulting in lower employment satisfaction and lower retirement readiness. These are issues that a good plan sponsor

will want the plan advisor to help to rectify.

You can read here more about the Columbia Business School study here: [“Offering vs. Choice in 401\(k\) Plans: Equity Exposure and Number of Funds”](#).

RiXtrema Inc, is known to many plan advisors for their 401kFiduciaryOptimizer which is primarily designed to help reduce the fees in the plan. However, many advisor may not know that the quantitative researchers at RiXtrema originally created stress testing software beforehand. This risk analysis software call PortfolioCrashTest allows an advisor to visually display to client's how their portfolio is likely to perform under different scenarios. This tool is great for creating an understand of risk with clients. Rather than just vague scores, you can show a client examples of scenarios that they can relate to. This stress testing tool can educate a participant without expecting them to have study finance literature. The participants quickly can receive some practical and relateable information to rely upon to make these decisions.



To view more information about how to use Stress Testing when working with clients, [please click here](#).

3 Advantages of Stress Testing vs. Traditional Risk Measures

AUTHOR: DANIEL SATCHKOV

WHAT IS STRESS TESTING

Portfolio Stress Testing is a useful method for determining how a portfolio will fare during periods of financial crises. The financial crises scenarios are modeled and may include historical events (e.g. 2008-like scenario) and events that we have not observed yet.



ADVANTAGES OF STRESS TESTING VS. TRADITIONAL RISK MEASURES

1. Traditional measures are backward-looking, and Stress Testing is not

Why do we need Stress Testing when we already have risk measures like Sharpe ratio, Beta, Value-at-Risk, Tracking Error, and Expected Shortfall? The problem with these measures is that they are completely backward-looking. A tracking error or a Sharpe ratio today has no clue that interest rates can actually rise by more than trivial amounts, since nothing of that kind was observed in the data sample used to calculate those metrics.

Moreover, if you ask one of these measures about the possibility of a simultaneous rise in interest rates and a drop in equities, it will likely tell you that the probability of such a one-two punch is zero. When those measures will gain that knowledge, it will be too late to be useful, since the events will have already happened. Backward-looking risk measures still view longdated Treasuries and any instruments with a great deal of interest rate risk as virtually riskless, due to the low volatility and safe haven appeal that we have observed over the recent decades. This will lead you to underestimate probabilities of events that are quite plausible in the next few years, such as inflation or stagflation.

2. Stress Testing is effective in prospecting by connecting to clients' dreams and fears

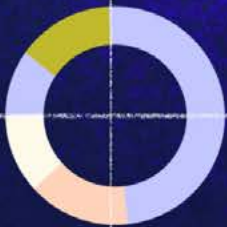
There are clear benefits of using Stress Testing in work with your prospects. Since investors get a lot of information from the press covering various world events, many prospects have fears of what would happen to their wealth if any of the frightening events materialized. And it frequently happens that when a fear is not measured it can grow disproportionately big in the prospect's mind. And Stress Testing allows the advisors to put a price tag on the fear, i.e. to quantify it. Quantification of the potential damage of disastrous scenarios is the first step in evaluating various portfolio options. For example, based on our close work with many advisory firms, a while back a very "popular" fear was that of the Greece exiting the Euro zone, later the ISIL taking over Iraq was on investors' minds.

3. Usage of Stress Testing by advisors is in line with the rest of the financial industry

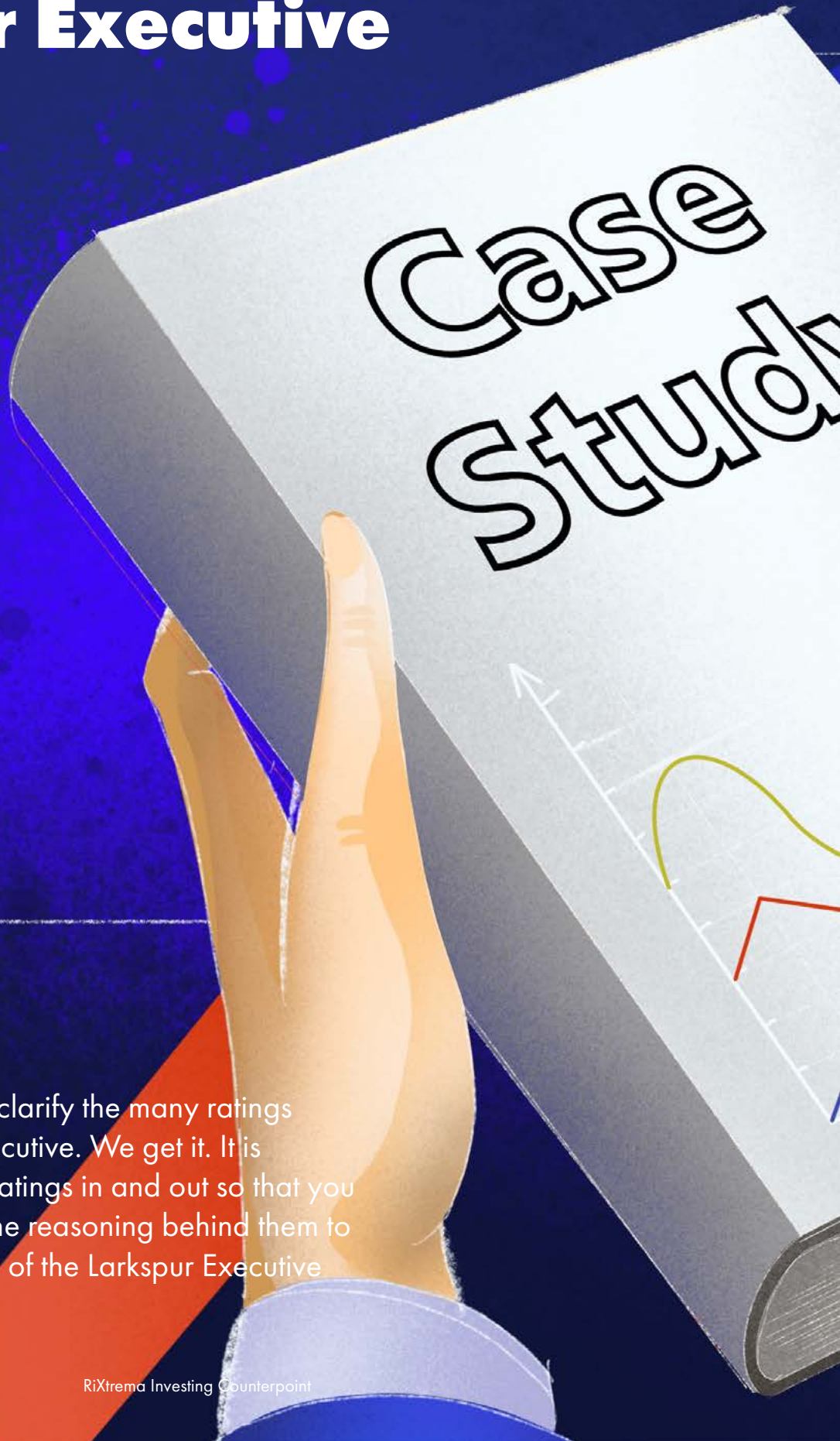
Have you noticed how Fed stopped talking about Value-at-Risk for banks? It practically disappeared from popular discourse starting in 2009. The Fed and the ECB now routinely talk about stress testing of banks. Of course, stress testing can also be misused and gamed by the banks, but at least they realized that estimating risk simply based on what happened over the past couple of years is a rather flawed strategy. Based on the fact that the usage of Stress Testing is quickly increasing among financial institutions and is demanded by the Fed, we expect its usage to grow very fast in the financial advisory services.

Plan Ratings in Larkspur Executive

AUTHOR: COLIN WARD



Often our users ask us to clarify the many ratings provided by Larkspur Executive. We get it. It is important to know these ratings in and out so that you can confidently explain the reasoning behind them to clients. Here's a rundown of the Larkspur Executive ratings.





The benchmark ratings are a quick way to assess how a plan scores when compared to 1000s of similar plans. A plan's rating is useful for providing context to its key metrics. A plan may have had a rate of return of -3% in 2018, but it is difficult to know if that is good or not. A quick comparison to a -6% benchmark average tells you that the plan is better than most. We ranked all plans within a 0-100 to determine the difference between the plan and an average. So, if the plan's rating is 85, then you know that only 15% of other similar plans had a higher rate of return.

Instead of telling a plan sponsor that their amount of contributions are poor, you can tell them that compared to their peers they are ranked in the lowest x%.

Now let's dive into each rating.

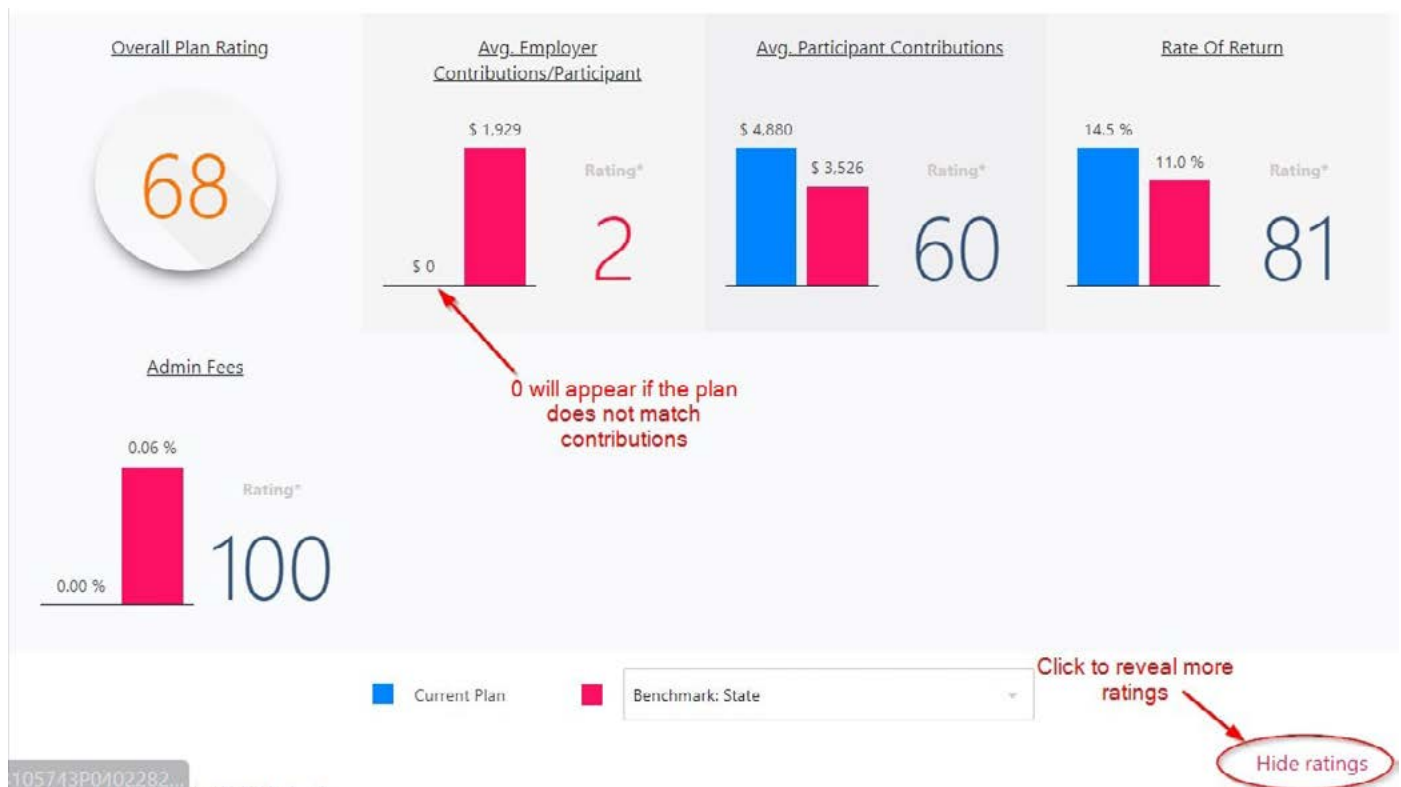


Figure 1: Larkspur Executive has many ratings for each plan sponsor

AVERAGE EMPLOYER CONTRIBUTIONS / PARTICIPANT:

As we discussed previously on our blog, "[Why are Participant / Employer Contributions important to a plan sponsor?](#)", there are many reasons why plan sponsors will want to boost participant contributions. Put simply, the executives' 401k contributions are limited by the plan's participation rate and could be leaving money on the table if their existing financial advisor is not marketing effectively to boost this rate. This rating will show "\$0" if the plan sponsor does not make any matching contributions (Figure 1).

PERCENT OF RETIREES:

An understanding of the proportion of withdrawing participants in a plan is essential to understand the goals of the plan sponsor – growth or income. This rating shows the number of participants who are withdrawing from the plan. Although, it does not factor in the Overall Plan Rating and may not be rated if the number is not provided in the 5500.

Admin Fees: Rixtrema was practically founded around a mission to make plan sponsors aware of excess fees – a [white paper](#) inspired our 401k Fiduciary Optimizer financial planning software. Our clients frequently report that the Admin Fees rating shocks plan sponsors during meetings. ([We wrote before](#) about how to find plans with the highest admin fees.)

Rate of Return: The rate of return rating is a comparison of the total change in the size of the plan's assets due to investment income and capital appreciation. We do not include contributions or distributions in the rate of return calculation because they do not contribute to the portfolio's performance.

THE QUINTESSENCE OF LARKSPUR EXECUTIVE: OVERALL PLAN RATING

The Overall Plan Rating is calculated by the average of all the other ratings. Like the rest, it is a percentile rank compared to plans in the selected benchmark. It is calculated by averaging the other ratings, except Percent of Retirees. If there are any Top Fiduciary Risk Factors that exceed 5 (Figure 2), then it will be deducted more.

Top Fiduciary Risk Factors

- > 5 reduces the Overall Plan Rating**
- 5** Per plan filing this plan did not indicate it had made a 404(c) election. ERISA code section fiduciary liability established in ERISA code section 404(a). The exception in 404(c) allows investment losses to plan participants. The 404(c) election provides a significant benefit t
 - 3** Per plan filing the plan has participants who are separated from service or receiving bene should consider the cost and liability associated with retaining former employee account
 - 2** Per plan filing the plan has participants who are separated from service with deferred ves Plan sponsors should consider the cost and liability associated with retaining former emp no longer employed or separated from the plan sponsor should ensure that Schedule SS filing. The information reported on Schedule SSA is given to the Social Security Administr participants when they file for Social Security benefits.
 - 2** Per plan filing the plan is a Money Purchase Plan. Most plans of this type no longer serve Money Purchase Plans into existing Defined Contribution Plans such as 401k's and reduc plans may also help sponsors increase their contributions and tax benefits. Sponsors sho explore the benefits of combining Money Purchase with other plan types.

Figure 2: any risk factor greater than or equal to 5 will reduce the overall plan rating

THE DIFFERENCES BETWEEN BENCHMARKS

Every rating, except the overall rating, is relative to one of 3 benchmarks. The most reliable ratings are bench-marked to thousands of similar plans, so it is important to note that the comparison size will change (Figure 4). You can click on any one of the ratings to create powerful benchmarking charts that illustrate the percentile ranking and distribution (Figure 3). ([We discussed those charts previously on our blog.](#))



Figure 3: click on any of the ratings to see a graph and better understand the distribution

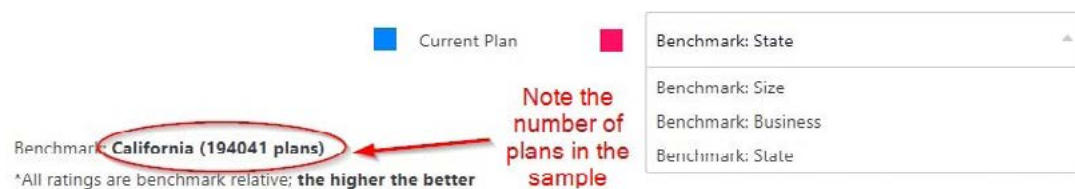
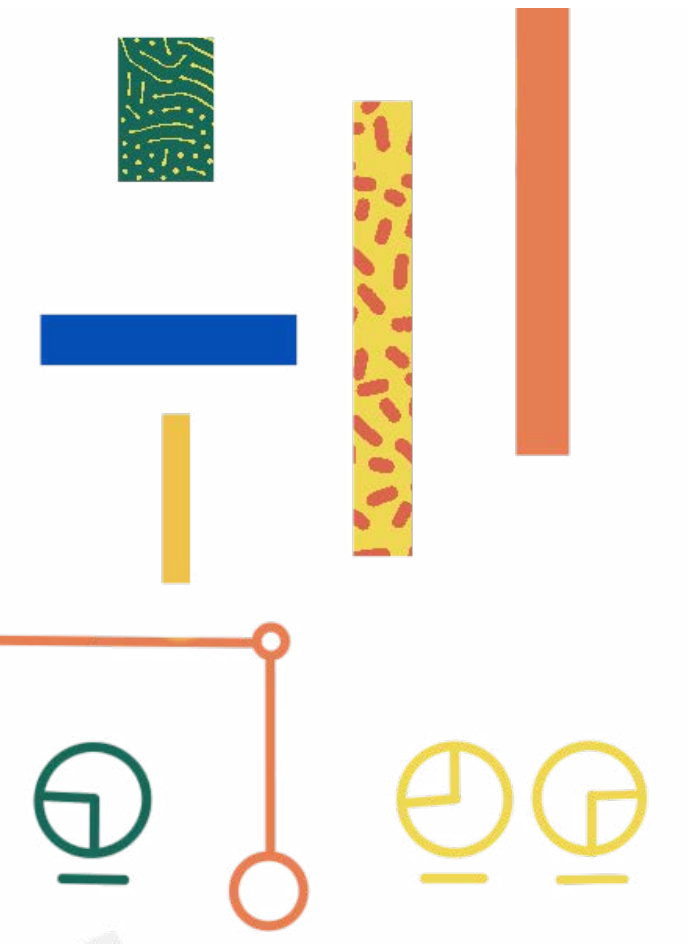


Figure 4: choose benchmarks with thousands of similar plans

BENCHMARKING BY THE STATE IS USEFUL WHEN PROSPECTING IN RURAL AREAS

When prospecting sponsors in rural areas, comparing plans within the state may give a more relevant context. Area-specific demographics, though, may make the rating misleading if the comparison is made to businesses within a contrasting population. The plan conditions of a New York company are not the same as Beaumont, Montana.



THE BUSINESS BENCHMARK CAN BE TOO SMALL FOR NICHE PLAN SPONSORS

Each benchmark pulls information from the vast Larkspur Executive database. If the 5500 document identifies the plan sponsor as part of a niche industry, then benchmarking it to other businesses is not wise because the sample size will be very small. Instead, the asset size benchmark can be a more adequate contextual reference for the portfolio's performance and fiduciary advisor's actions.

You can [read more about the features in Larkspur Executive](#) and the rest of our financial planning software platform at our blog, rixtrema.com/blog. You can also read our analysis of markets and current events and subscribe to our newsletter. If you have any questions about any of our software, then please contact our Client Success Team at clientsuccess@rixtrema.com.



