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Subject: **GROWTH & HIGHER MARGINS IN A NO GROWTH MARKET**

NO SILVER BULLET SOLUTION

The U.S. and global economies may be slowing from an already anemic recovery. Correct as usual, the U.S. Treasury market has been forecasting an economic slowdown as well as the escalating challenges posed by the global debt bomb.

After decades of fiscal mismanagement by multiple administrations, today's policymakers continue to display a lack of leadership. Lacking a cohesive long term plan for solving the nation's fiscal imbalances, U.S. Treasuries were stripped of their AAA rating and further downgrades are a real possibility.

Given the aforementioned events, the limited options available to policymakers and the lack of investor confidence, the investment markets remain volatile, accident prone and in need of a solution.

We cannot tax or spend our way to an economic recovery. **Without a credible long-term policy for fiscal responsibility and economic growth, today's investment conditions will continue.** The global sovereign debt problem took a long time to accumulate and purging the system of this excess debt will take an equally long time. In short, there is no silver bullet solution.

To fuel non-sustainable spending, the nation's leaders became hooked on debt. To fuel growth, the retirement plans industry became hooked on positive investment returns. **Given the stagflationary outlook and the extended period of adjustment required to solve the debt problem, positive investment returns are unlikely to fuel future growth**. Indeed, the only solution is to capture more assets and improve margins.

THE REAL INDUSTRY CHALLENGE

Characterized by loose monetary policy, a weak currency, a no growth economy, high unemployment, rising prices and declining margins, stagflation is a high risk and worst case scenario. In addition to a poor wage and housing outlook, these conditions could unfortunately persist for the foreseeable future.

Although stagflation is somewhat rare, it would be normal for the broad equity markets to vacillate within a sideways trading range while food, energy and resource prices remain buoyant. In short, until the current conditions change, the equity market is unlikely to recover and fuel asset growth.

Dwarfing all other issues, **the ability to earn a positive return is and will continue to be the biggest challenge facing the retirement plans industry in the years ahead.**

Given that a traditional approach to investing is unlikely to succeed during periods of stagflation, **those who adapt to the changing investment environment and identify investment options with pricing power could undoubtedly gain a major competitive edge.** Developing a prudent, cost effective transparent, liquid, fairly valued, tax effective and diversified approach to nontraditional investing will not, however be easy.

Because we expect a super cycle of food, energy and resource shortages, *Investment Options With Pricing Power* will be one of the themes for the CFDD's 2012 Advisor Conference. If you would like to participate in the agenda, please get involved early.

STATISTICAL REPORTING vs. RETIREMENT PLANS RESEARCH

Statistical reporting and research are quite different. Furthermore, numerous sources report reliable retirement plan statistics, but credible retirement plans research has always been lacking.

There is no market for unpleasant news and based on extrapolated investment returns, industry research has always predicted a glowing future for retirement plans asset growth. This same research has consistently painted a rosy picture for cross selling retirement income type products.

Faced with capital expenditure decisions, industry research may placate senior management, but it has never been particularly accurate and it should not be used for planning purposes. While pockets of opportunity still exist, **the corporate DC market has matured and the collective DB plan market has been winding down for many years.**

Plan formations have peaked and while it has been predicted, few realize that DC plan **distributions are already exceeding contributions**. Furthermore, **positive investment returns are unlikely to fuel asset growth** in the foreseeable future. To make conditions even more challenging, compliance demands and liability have increased while **margins are deteriorating**.

Top tier plan level advisory services may still be growing, but an equal number of advisors are reporting that they are losing business to other advisors who are undercutting their fees. Some of the business is being lost to qualified advisors and some is being lost to less than qualified advisors who are not offering the same level of services.

The media has always been somewhat critical of the 401k plan market and while they don't have a clue, collective retirement plan advisor margins are too low. **To remain viable, advisors must capture more assets and improve their margins.** Fortunately, a window of opportunity still exists. In addition to a broad and diverse agenda suitable for staff development, CFDD '11 will illuminate this path to growth and higher margins like a napalm run.

For more information on retirement plan contributions and distributions, go to http://www.thecfdd.com/dcplanstatistics and click on *Statistical Trends in Retirement Plans.*

PLAN & PARTICIPANT LEVEL GROWTH OPPORTUNITIES

Unlike the corporate DC plan market, the nonprofit retirement plans market is not mature. Total nonprofit retirement plan assets are in excess of $2 trillion, growing and the assets are in play. The plan and enhanced margin participant level opportunities are unprecedented, particularly the higher education market, but they have not been fully recognized by the advisor community. The window of opportunity won't last, but **no other retirement plans market segment can match the opportunity offered by the nonprofit market**.

Sparked by audit deficiencies, regulatory reforms and fiduciary liability, **nonprofit sponsors are seeking independent advisory assistance.** The nonprofit markets are specialized, highly segmented and different from the corporate market. As a result, most advisors are not currently participating in the opportunity to help 403(b) plan sponsors replace multi-vendor products with institutionally priced, open architecture, single vendor programs.

Many nonprofit plan sponsors maintain legacy DB plans that are seriously underfunded. Some are active and some are frozen, but they are in need of urgent attention. These plans represent both a financial and human capital drain on organizations with limited resources. Advisors limiting their focus solely to DC plans are missing the opportunity to **capture companion plan business** through fee reductions, asset aggregation, hard freezes, soft freezes and the implementation of various interest and mortality tables.

Some DB plans are not invested properly and many nonprofit plans are saddled with outdated plan design and Investment Policy Statements. Savvy advisors are certainly interested in providing asset management/de-risking strategies to help close the funding gap, but few have thought about outsourcing administration or Total Retirement Outsourcing. Nonprofit business is booming and much of it is centered around outsourcing that encompasses DC, DB and NQDC plans on one recordkeeping system and website.

Growing higher margin business in a no growth market is not easy, but it is possible. The 403(b) market is evolving and pioneering the advisor delivery of open architecture participant advice on a scalable and centralized basis. This provides an opportunity for advisors to **capture higher margin participant level advisory business** and use vendor platforms as distribution channels & co-branded/marketing partners for plan level bids. In addition to higher margins, high touch **participant level advisory services are positioned for growth.**

The plan and participant level opportunities offered by the nonprofit markets are unprecedented, but they won't last. Given the limited window, **advisors must start pursuing this business now.**

MEPs & ROLLOVER OPPORTUNITIES

Multiple Employer Plans (MEPs) have been around for a long time, but recent technological advancements in the collection and processing of data have broadened their appeal as a cost-effective solution for small employers. The non-traditional MEP approach offers a number of positives for small employers, but it also comes with constraints.

Unguided fiduciary missiles have long promoted the alleged outsourcing of fiduciary risk as the primary attraction of MEPs while others have combined the reduced liability with the potential for significant cost savings.

The jury is out on the level of reduced fiduciary liability and while MEPs may reduce cost, it really depends on the current pricing and the audit costs. To identify potential savings, one must identify the true overall cost of the existing plan, including the audit, TPA administration, document restatements, ERISA bonds and the real issue, i.e., the cost of the internal staff devoted to retirement plans compliance.

While full regulatory compliance is extremely difficult for all retirement plans, **the growing complexities of compliance may be impossible for small plan sponsors to manage.** As a result, **the real advantage of MEPs is a significant reduction in the burden placed on the plan sponsor and their internal staff.**

The retirement plans burden placed on small plan sponsors, i.e., companies that make boxes, windows, etc., is simply overwhelming. As a result, MEPs offer **a major path to growth in the small plan market.**

While all MEPs are not the same, employers who merge their existing plans into a properly structured MEP are no longer the plan sponsors. They should also cease to be a Trustee, Plan Administrator or any sort of named fiduciary. The employer does, however, maintain the decision for de-adopting the MEP, plan design, submitting contributions, including non-elective contributions, required notices, communication & enrollment assistance and providing information required by the MEP.

While traditional small plan providers may view MEPs as a threat, **fee disclosure and a broadening of the fiduciary standard could have a major impact on MEPs.** Indeed, given that adopting employers do not contract with service providers by the very nature of their relationship with the MEP, they may not have to navigate the confusing 408(b)(2) benchmarking and documentation shallows. **Advisors servicing a well-structured MEP may also avoid becoming a named or functional fiduciary, allowing them to fully participate in the growing rollover market.** As noted, retirement plan rollovers are already exceeding contributions and that trend will continue.

CFDD 2011 ADVISOR CONFERENCE

The Center for Due Diligence's October 17-19, 2011 Advisor Conference, *Participant Advice, Retirement Income & New Growth Strategies*, is the premier education and networking event for the retirement plans advisory industry. The must attend event includes two and one-half days of unmatched value and **exclusive growth solutions designed to put money in your pocket and facilitate face-to-face networking.**

The broad and diverse agenda will **help advisors leverage the increasing demand for *participant* advisory services, differentiate, gain a competitive edge and grow new higher margin business,** including communication & education services, model portfolios and participant elected managed accounts. We will also illuminate the path to scalability, co-branding for plan level bids, how vendor platforms can be used to distribute advisor services and more.

The toxic products sold in the 403(b) market are caving in. CFDD '11 will **show advisors how to tap into the greatest *plan* level opportunity in history,** including DB plans under far greater stress than their corporate counterparts. Nonprofit plan sponsors are aggressively seeking independent fiduciary guidance and major assets are in play. To help advisors capture 403(b) and rich companion plans, we will **provide takeover strategies and specific guidance on how to get past the screening process.**

The CFDD's content rich agenda remains at the top of the food chain and our *sixty* different sessions are populated by a Who's Who of recognized industry experts. Known as the *King of Content*, more accomplished retirement plan advisors attend the CFDD's Advisor Conference than any other industry event and our ratio of advisors to total registrants remains unmatched.

We know that hiring, training, succession planning and scalability are the biggest business challenges facing advisors today. Practices can't grow without staff and they can't be monetized without succession planning. Enrich your staff by **bringing one immediate team member at NO additional cost.**

CE credits are invaluable to overburdened advisors with limited time and resources. To add value and increase efficiency, the CFDD's Advisor Conference provides **a single source solution for unmatched core CE credits,** including IMCA, CFP, fi360, ASPPA, NIPA, FSS, IBF, CFA, SPARK, The American College, the College For Financial Planning and more.

As an added bonus, attendees can **earn the Accredited Investment Fiduciary (AIF®) designation by attending fi360's pre-conference training** on Sunday, October 16, 2011, the day before the CFDD's Advisor Conference. In addition to attending the conference and earning the designation, you would benefit from *additional* CE credits applicable to the CFP, IMCA, NASBA, The American College and more. To register for the fi360 wraparound training program, email Carl@fi360.com or call (866) 390 5080 x228.

Only CFDD '11 attendees will **gain access to exclusive participant advice competitive analysis**, a fiduciary insurance discount program, a conference CD-ROM and online access to all prior conference presentations.

Complimentary food, beverages, snacks, a disco-themed networking Kick-Off Party, prizes, **FREE spousal attendance and a Grand Prize Trip To Las Vegas** for two - including accommodations at the world class Bellagio Hotel - are all included in the registration fee.

The nonprofit retirement plans opportunity won't last. Recognizing the urgency to act now, CFDD '11 will serve up growth opportunities on a silver platter. To register, **learn how to participate in the last great retirement plans opportunity,** find out what is working from your peers and benefit from business building takeaways, go to the conference homepage at: http://www.thecfdd.com/CFDDconference2011 and click on online registration. You may also click on the buttons below.

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