



2023 INVESTMENT ADVISER SYMPOSIUM



406.444.2040



840 Helena Avenue
Helena, MT 59601



csi@mt.gov



csimt.gov



@DowningCSIMT



@MTCommissionerSecuritiesInsurance



@CommissionerDowning



MTCommissionerofSecuritiesInsurance

Agenda

- Generations & financial decision-making (Blair Stapleton)
- Form ADV updates & disclosure review (Ryan Sullivan)
- Legislative updates & coming changes (Brett Olin)
- Examination & enforcement summary (Patrick Murphy)
- New products, new models (Drew Cziok & Brett Olin)

Generational Differences in Financial Decision-Making

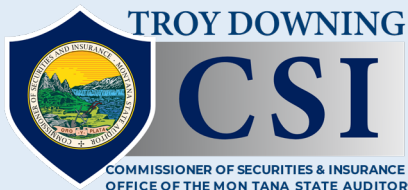


Blair Stapleton

Investor Education Coordinator

Moderator: Brett Olin

Deputy Securities Commissioner



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SO WHO ARE THE DIFFERENT GENERATIONS?

Here is how they are often grouped:



TRADS
1928 – 1944

TRADITIONALISTS:

Value authority and a top-down management approach; hard working; 'make do or do without'.



BOOMERS
1945 – 1964

BABY BOOMERS:

Expect some degree of deference to their opinions; workaholics



GEN X
1965 – 1979

GENERATION X:

Comfortable with authority; will work as hard as is needed; importance of work life balance.



GEN Y
1980 – 1994

GENERATION Y:

Respect must be earned. Technologically savvy; goal and achievement oriented.

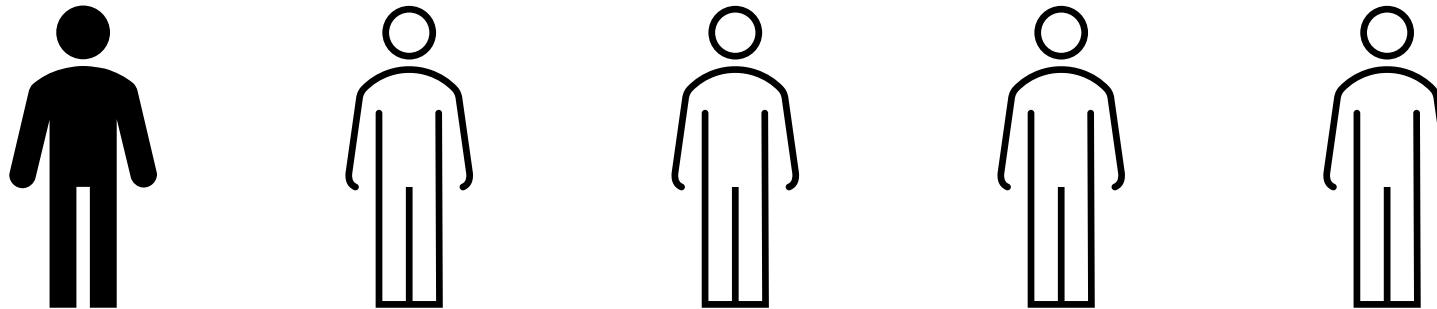


GEN Z
1995+

GENERATION Z:

Many traits still to emerge. Digital natives, fast decision makers, highly connected.

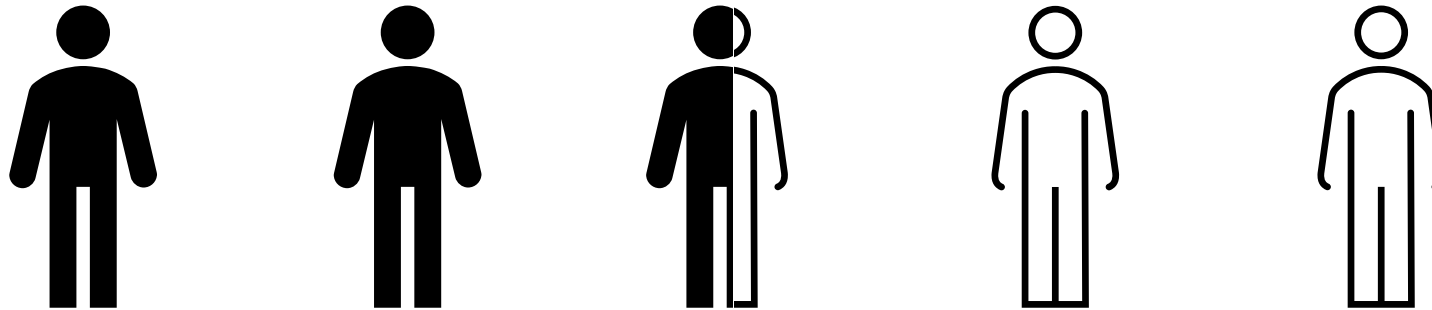
WHO IS INVESTING?



1 in 5 investors have less than 2 years of experience

According to a 2021 FINRA Foundation Survey

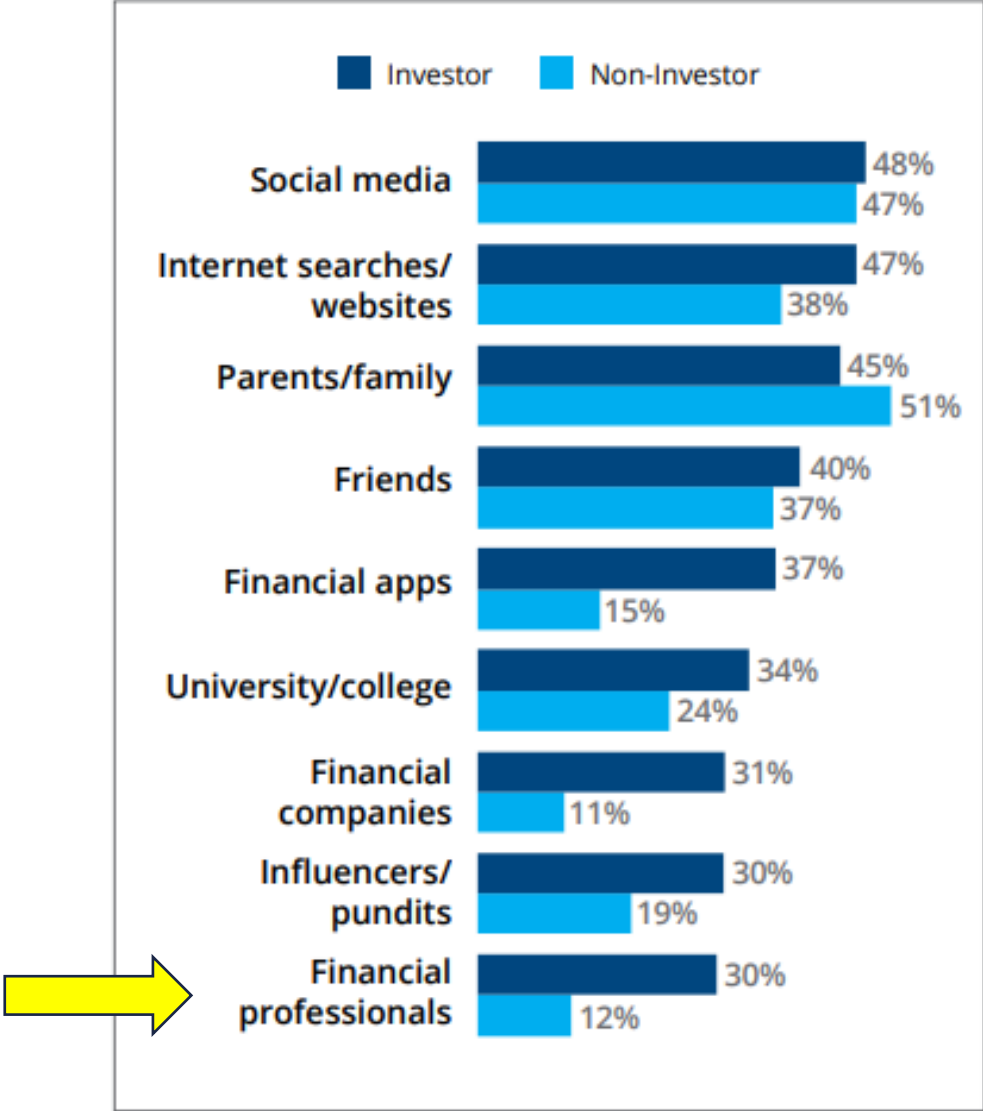
HOW OLD ARE NEW INVESTORS?



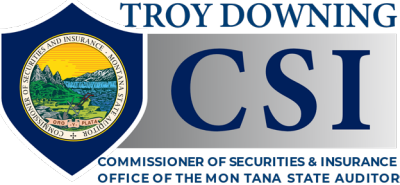
56% of Gen Z adults (18-25) report owning investments

According to a 2021 FINRA Foundation Survey

Figure 5. Sources of Information Gen Zs Use to Learn About Investing and Financial Topics



2023 FINRA Foundation Survey

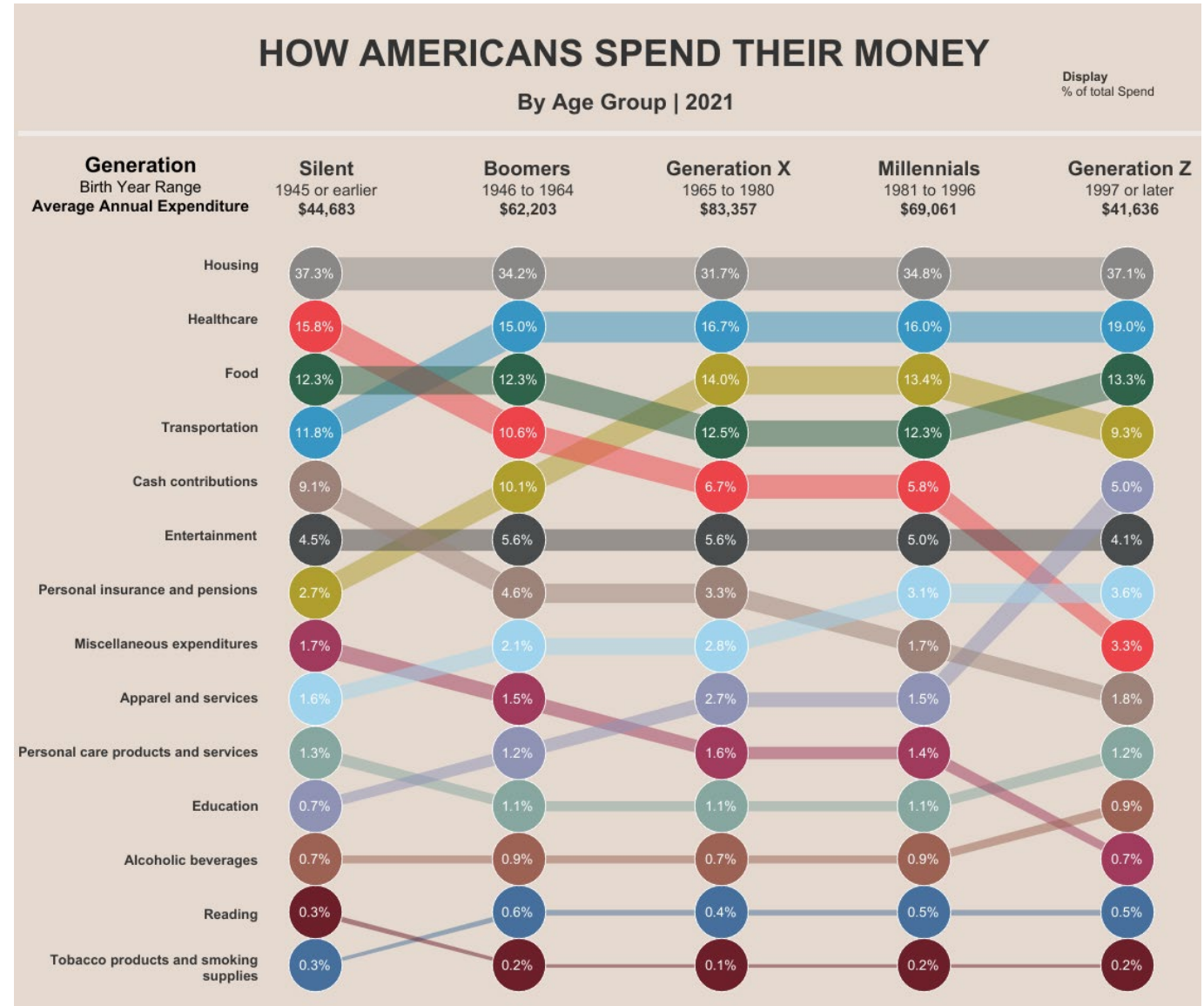


FACTORS THAT COULD INFLUENCE ATTITUDES TOWARD INVESTING

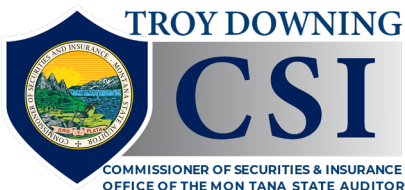
- Spending habits
- Saving habits
- Personal values
- Preparation for retirement

SPENDING HABITS

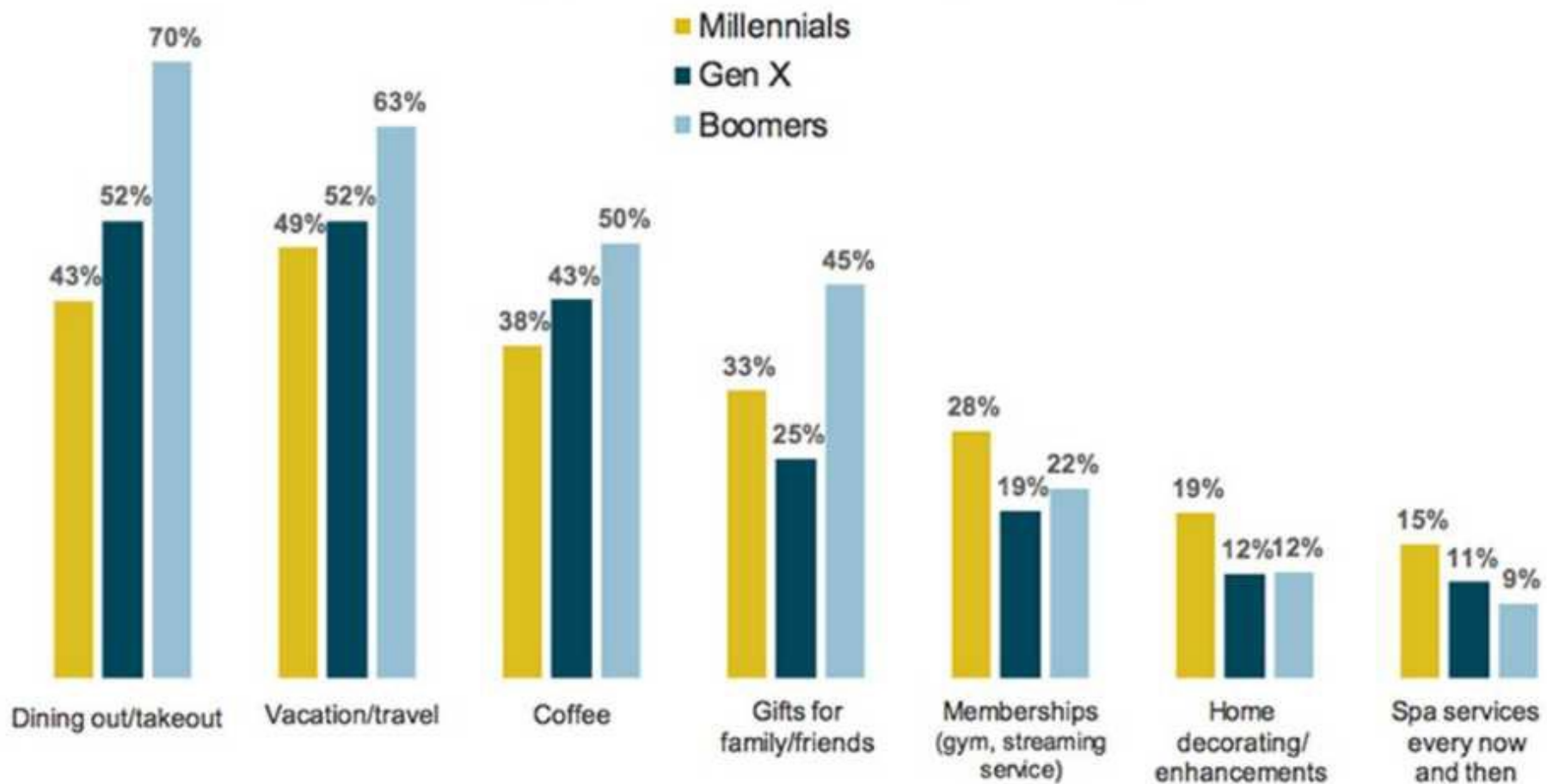
- **#1 for all generations:** housing
- **Traditionalists:** healthcare, food
- **Boomers and Gen Z:** transportation, food
- **Gen X and Millennials:** healthcare, personal insurance & pensions



Data from World Economics Forum (2021)



Which do you consider basics to your lifestyle?

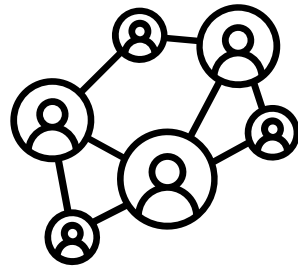


TD Ameritrade survey (2019)

WHAT INFLUENCES NONESSENTIAL EXPENDITURES?

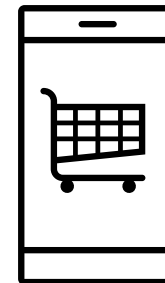
Baby Boomers

- Family or friends
- Boredom



Millennials

- Advertising
- Social media



SAVING HABITS

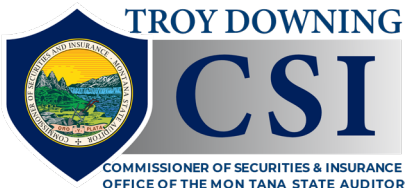
Percentage of income put into savings:

- Boomers: 6.8%
- Gen X: 16%
- Millennials: 9.8 %

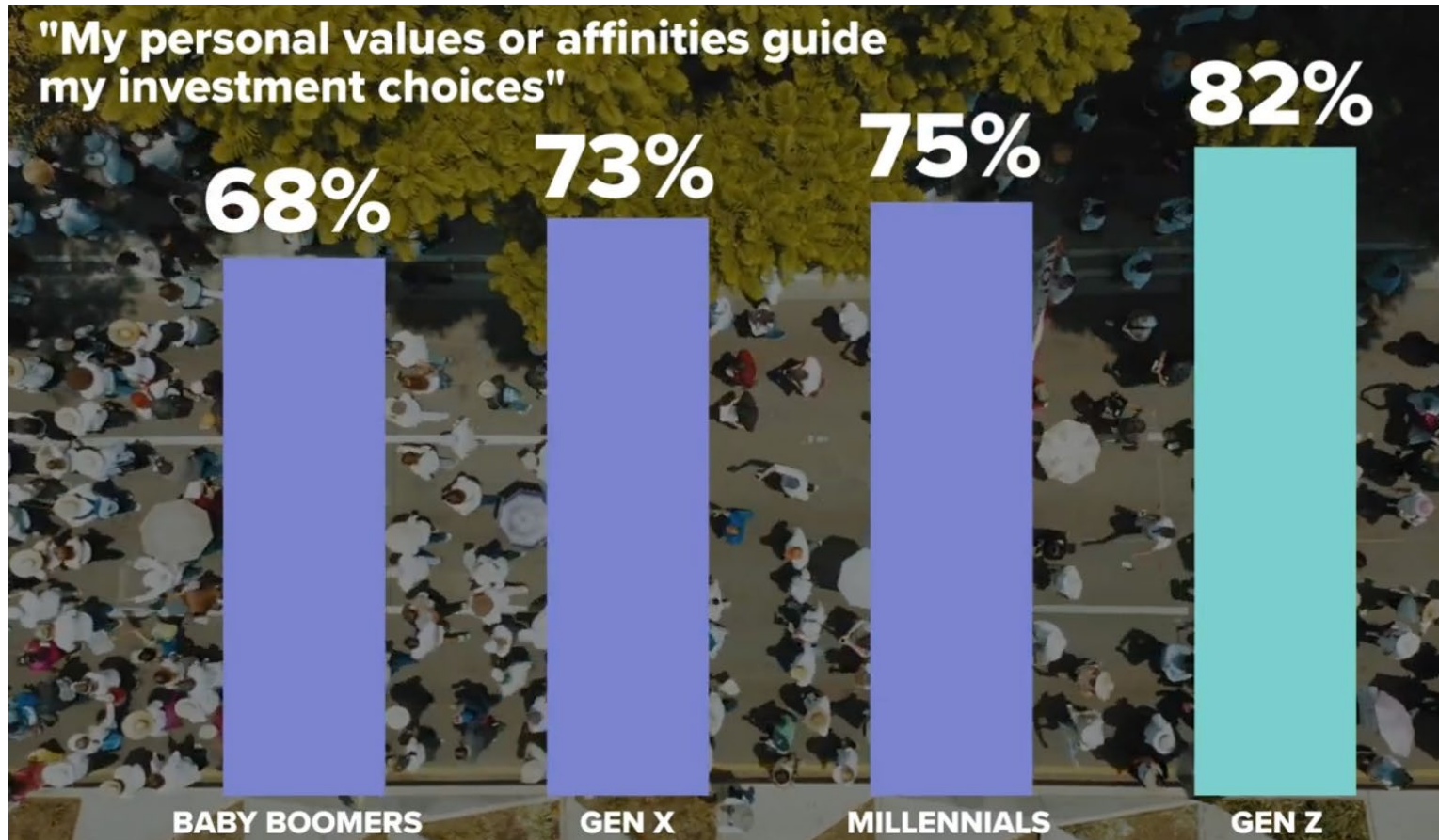
Spending Category	Baby Boomers	Generation X	Millennials
Housing	\$ 11,159	\$ 14,193	\$ 11,415
Utilities and Housekeeping	\$ 8,844	\$ 9,856	\$ 6,914
Food	\$ 7,889	\$ 9,826	\$ 7,061
Healthcare	\$ 6,025	\$ 4,786	\$ 2,831
Transportation	\$ 10,044	\$ 11,775	\$ 9,435
Apparel and Personal Care Products	\$ 2,512	\$ 3,278	\$ 2,647
Entertainment	\$ 3,801	\$ 3,921	\$ 2,391
Reading and Education	\$ 1,451	\$ 2,260	\$ 1,372
Alcohol and Tobacco	\$ 1,011	\$ 1,103	\$ 891
Personal Insurance and Pensions	\$ 7,210	\$ 10,570	\$ 6,355
Other	\$ 3,379	\$ 3,115	\$ 1,562
Total Annual Spending	\$63,325	\$ 74,683	\$ 52,874
Annual Savings ¹	\$ 4,625	\$ 14,111	\$ 5,754
Post-Tax Income	\$ 67,950	\$ 88,794	\$ 58,628

1. We assume that annual savings is post-tax income minus total annual spending.

2019 SmartAsset study using data from Bureau of Labor Statistics



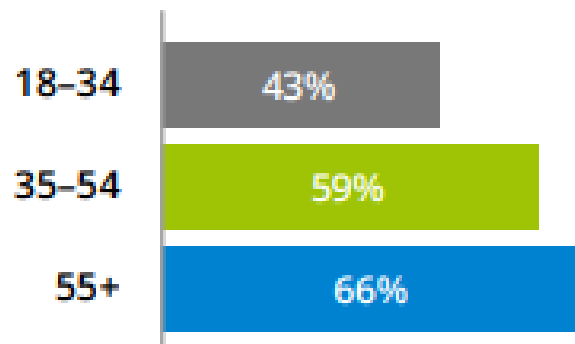
PERSONAL VALUES



Charles Schwab survey (2022)

RETIREMENT PREPARATION

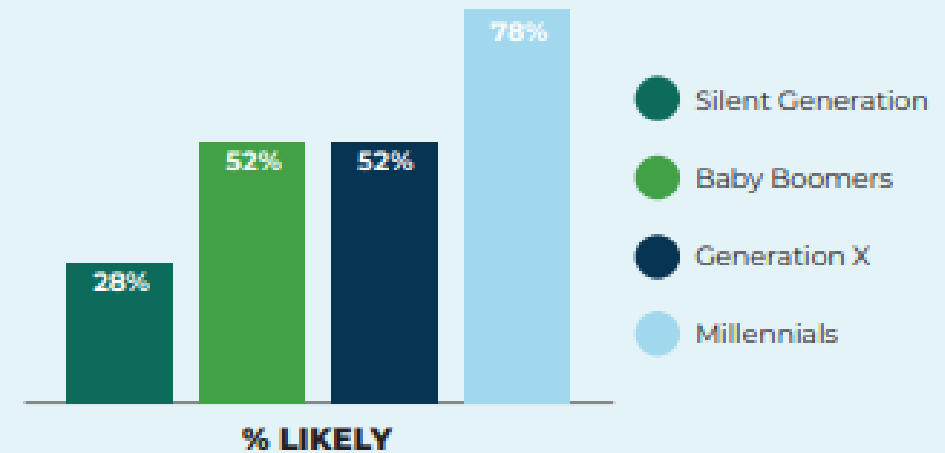
Percentage of age groups that have any type of retirement account:



FINRA Foundation National Financial Capability Study (2022)

Figure 10: Millennials are substantially more inclined to believe they will have to work past a normal retirement age for financial security.

How likely is it that you will need to work past the normal retirement age to have enough money in retirement?



National Institute on Retirement Security survey (2021)

CONNECTING WITH TRADITIONALIST INVESTORS



Assurance of lasting wealth



Estate planning

CONNECTING WITH BABY BOOMER INVESTORS



Face-to-face communication



Availability



Consideration of family

CONNECTING WITH GEN X INVESTORS



Minimization of risks

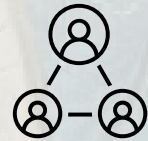


Personalized advice

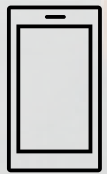
CONNECTING WITH MILLENNIAL INVESTORS



Personalized advice



Multi-generational teams



Mobile capabilities &
enhanced client portals



Charitable giving options

CONNECTING WITH GEN Z INVESTORS



Availability of resources



Personal values



Digital communications

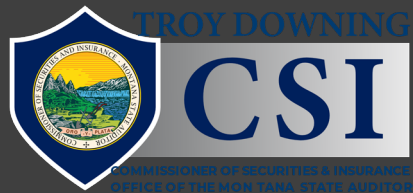


Evaluation of risk



Diverse teams

Questions?



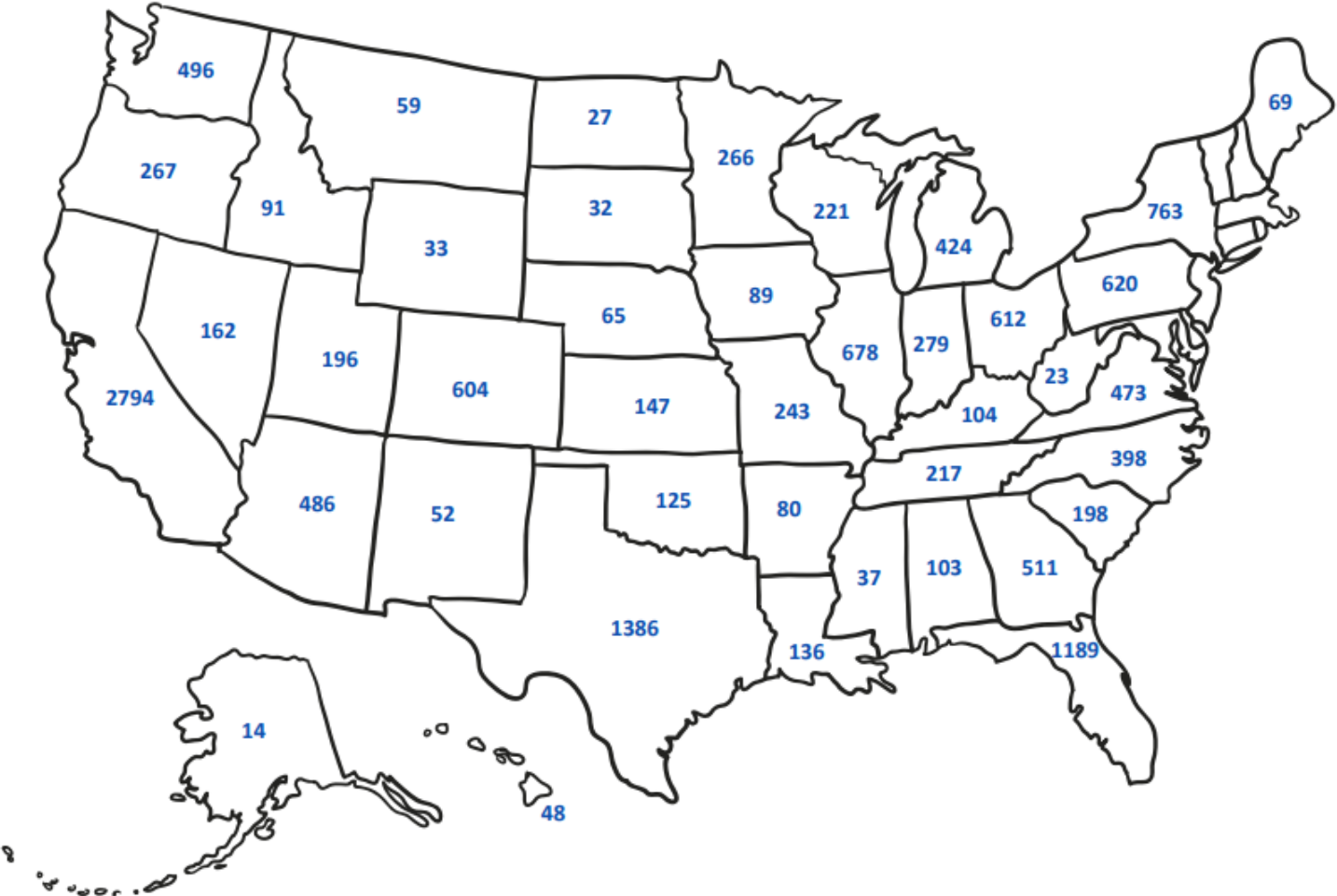
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Form ADV: Disclosures, Updates, & Fee Structures



Ryan Sullivan
Investigator/Examiner

State Registered IA Map

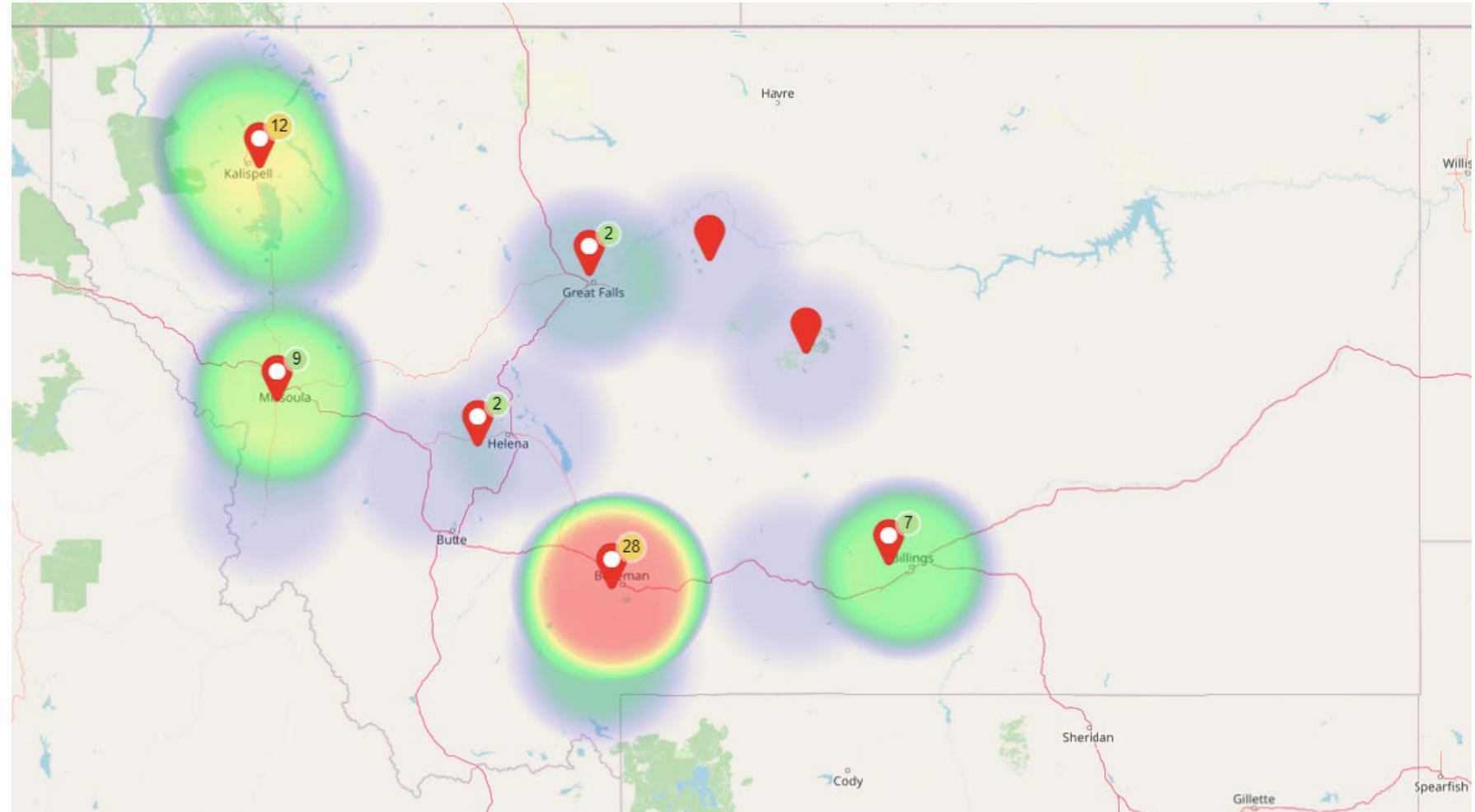


- CT – 326
- DE – 37
- DC – 27
- MD – 358
- MA – 636
- NH – 150
- NJ – 576
- RI – 56
- VT – 37
- PR – 39
- VI – 4
- GU – 0



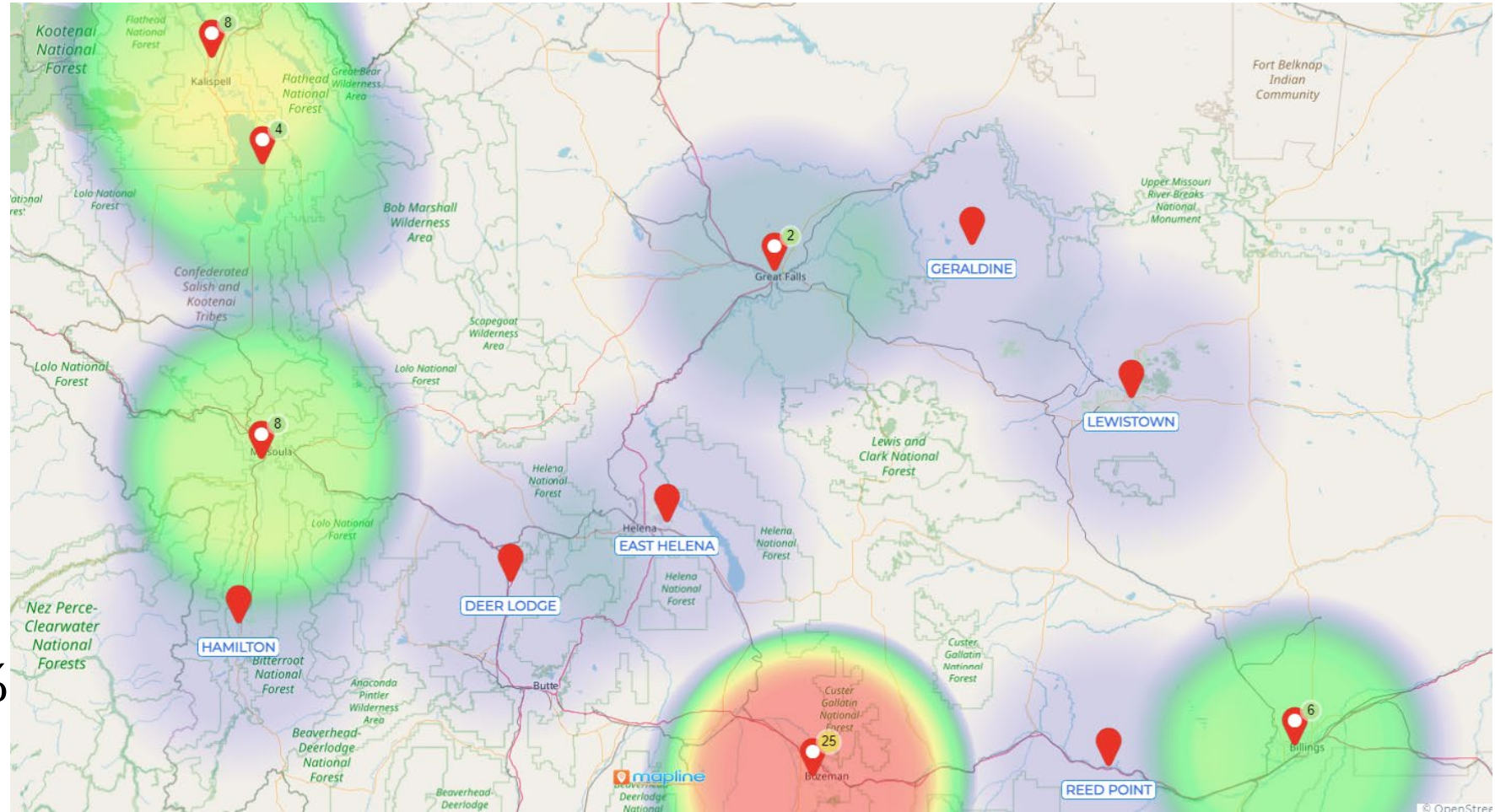
STATE REGISTERED IAs

- Bozeman - 25
- Missoula - 7
- Billings - 6
- Kalispell - 4
- Whitefish - 3
- Big Sky - 3
- Bigfork - 3
- Great Falls - 2
- East Helena - 1



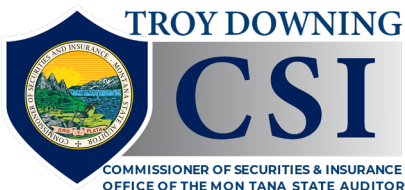
STATE REGISTERED IAs

- Bozeman – 40%
- Missoula – 11%
- Billings – 6%
- Kalispell – 4%
- Whitefish – 3%
- Big Sky – 3%
- Bigfork – 3%
- Great Falls – 2%
- East Helena – 1%



FORM ADV

- Uniform Application for Investment Adviser Registration and Report by Exempt Reporting Adviser
- Used by IAs to register with the SEC and state securities authorities
- Form ADV Part 1
- Form ADV Part 2A & 2B



FORM ADV PART 1

Requires info about the IA's:

- Business
- Ownership
- Clients
- Employees
- Business practices
- Affiliations
- Any disciplinary events of the adviser or its employees



Organized in a check-the-box, fill-in-the-blank format using the FINRA IARD

FORM ADV PART 2A (BROCHURE)

- Requires IAs to prepare narrative brochures that include plain English disclosures of the adviser's:
 - Business practices
 - Fees
 - Conflicts of interest
 - Disciplinary information
- The brochure is the primary disclosure document for IAs and must be delivered to advisory clients

WHAT TRIGGERS AN UPDATE?

- Each year at the same time, you file your annual updating amendment
 - Typically before March 31st
- Promptly whenever any info in the brochure becomes materially inaccurate
 - Can provide summary of material changes



HOW DO I FILE MY FORM ADV?

- Complete Form ADV electronically using the Investment Adviser Registration Depository (IARD) if:
 - You are filing with the SEC (and submitting notice filings to any of the state securities authorities), or
 - You are filing with a state securities authority that requires or permits advisers to submit Form ADV through the IARD.
 - To file electronically, go to the IARD website (<www.iard.com>), which contains detailed instructions for advisers to follow when filing through the IARD



WHEN DO I DELIVER A FIRM BROCHURE?



You must give a firm brochure to each client (SEC rule 204-3(b))



Before or at the time you enter into an advisory agreement with that client



Each year within 90 days of the end of your fiscal year (summary of material changes is OK)



Deliver to each client a summary of material changes that includes an offer to provide a copy of the updated brochure and information on how a client may obtain the brochure



You do not have to deliver an interim amendment to clients unless the amendment includes info in response to Item 9 of Part 2A (disciplinary information)

WHAT IS THE CSI LOOKING FOR?



Narrative
Format



Plain
English



Disclosure
Obligations
as a
Fiduciary



Full &
Truthful
Disclosure



Filed
through
IARD as
searchable
Adobe PDF



Annual
update on
or before
March
31st

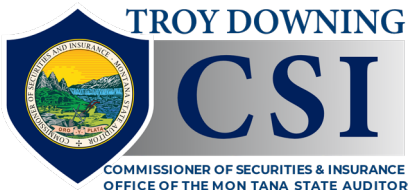
OUTSIDE BUSINESS ACTIVITIES

- Transparency to potential conflicts of interest
- Investment & non-investment
- How much time is being spent?



THIRD PARTY CONTRACTS

- Transparency to potential conflicts of interest
- Protect client information
- Third party managers
- IT-Consultant



FEE STRUCTURE

- How are you compensated?
- Fee schedule in a tabled format
- Are fees negotiable?
- Collected in advance or arrears?



FORM ADV PART 2B

- Brochure supplement
- Any supervised person who formulates investment advice for a client and has direct client contact
- Any supervised person who has discretionary authority over a client's assets, even if the supervised person has no direct client contact

CSI's FIRM BROCHURE PROCESS

- FINRA IARD queue
- Reviewed in order of date received
- IAs can request reviews
- Annual report in April



NEED
HELP?

INVESTMENT ADVISER REGISTRATION DEPOSITORY
www.iard.com Search

HELP & TRAINING

This page includes links to information that will provide users of IARD with guidance regarding the IARD system and making electronic filings.

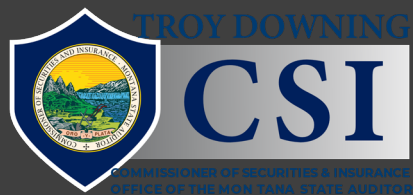
See the [COVID-19](#) page for investment adviser-related information and guidance

Form Instructions:

- [Important Information Regarding a Firm's First IARD Filing](#)
- [Form ADV Part 2 Instructions](#)
- [Form ADV Schedule A Instructions](#)
- [Form ADV Schedule B Instructions](#)
- [Form ADV Schedule R Section 4.A. Instructions](#)
- [Form ADV Schedule R Section 4.B. Instructions](#)
- [Uniform Branch Office Registration Form \(Form BR\)](#)
- [Form ADV-W Instructions](#)
- [Glossary of Terms](#)

What is IARD?
How to Access IARD
Filing Online
Fees & Accounting
E-Bill
IAR CE
Renewal Program
Help & Training
Publications
Directories
Private Fund Reporting Depository (PFRD)
PFRD User Support

Questions?



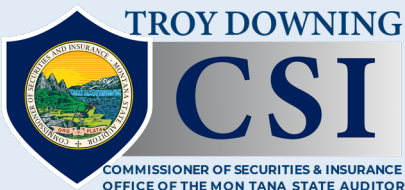
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Examination Basics: An Overview of CSI Expectations

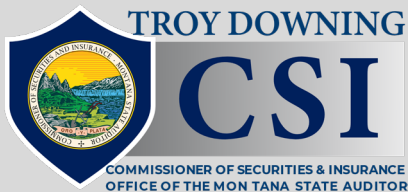


Jennifer Adkins

Investigator/Examiner



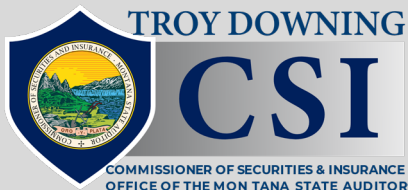
What to Expect When You're Expecting...Your Regulator



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Has it been a while
since you've been
examined?

You can expect
that we'll be...



This Photo by Unknown Author is licensed under CC BY-SA-NC

Exam is scheduled, now what?

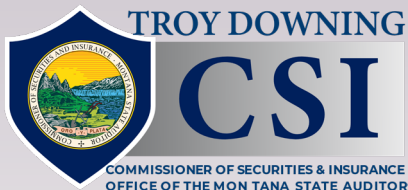


You can expect from us:

- Document production request 2-3 weeks prior to scheduled on-site visit.
- Examiner will have reviewed the files you provided.
- Examiner will have reviewed your ADV and brochure.
- Examiner will have done their due diligence and researched you and your business.

You can expect from us:

- Examiner will be kind and courteous.
- Examiner will listen and be a resource.
- If your home is your office, expect 2 examiners on-site. For your protection and ours.
- Examiner will provide his/her own wireless and computer.

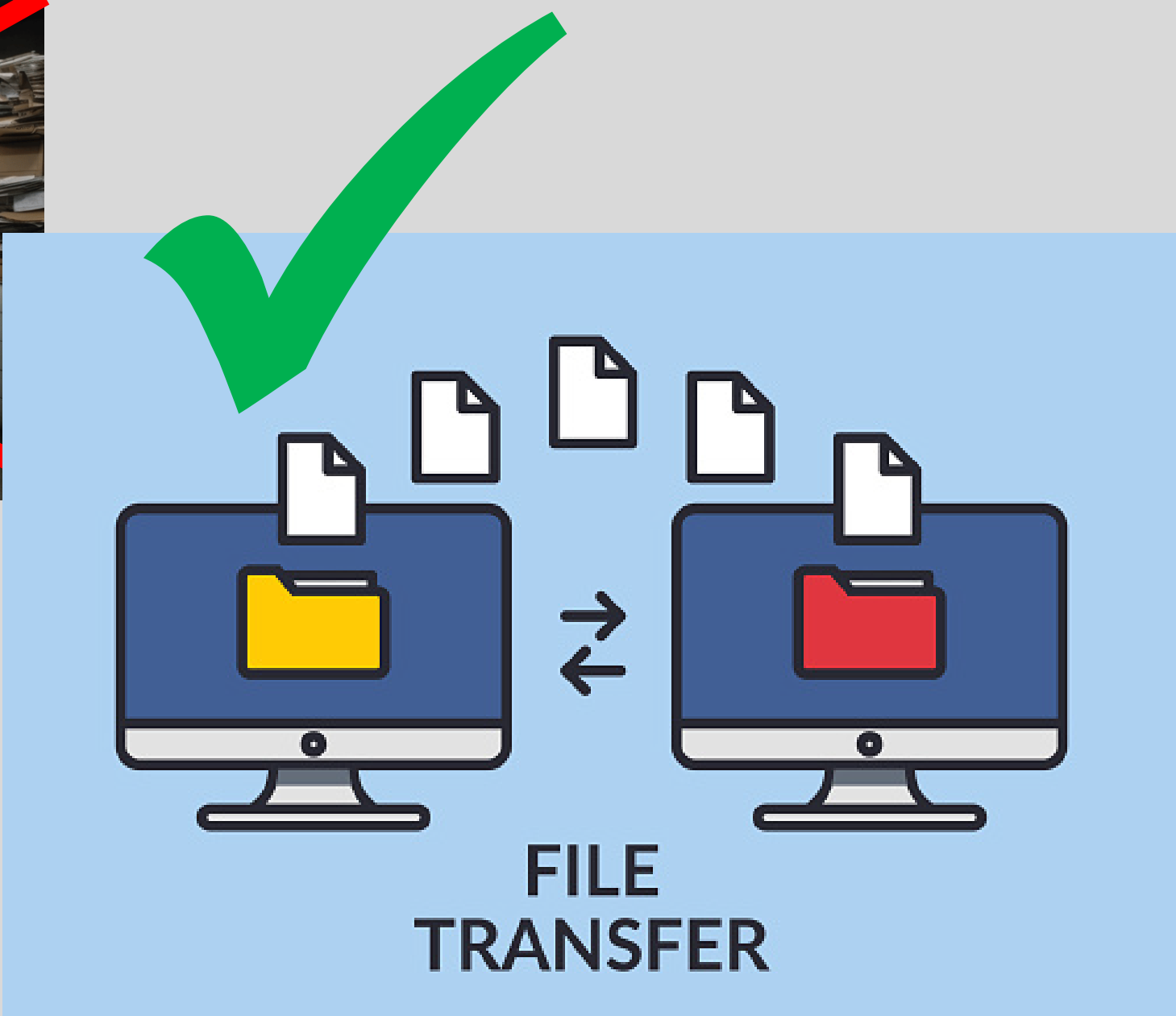


We expect from you:

- Be responsive to requests and provide files by the deadline given.
- Accommodate the scheduled date and time of the exam to the best of your ability.
- Be prepared to provide access to your electronic client files while we are on-site.



- Provide documents electronically using the secure State of Montana file transfer service.



https://transfer.mt.gov/Home/L

Registration

[Instructions](#) [Feedback](#)

Please enter the following information.

* Email:

* First Name:

* Last Name:

[← Back](#) [→ Submit](#)

Sent Transfers

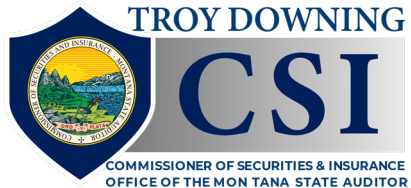
Instructions Feedback

- Sent Files
- Received Files
- MT Drive
- User Preferences

Remove Selected File(s) + Send a New File(s)

<input type="checkbox"/> Select All	Name	Size	Sent	Recipients	Status
<< < 1 > >>					

+ Send a New File(s)



Drop Files Here
or Click to Upload

TEST DOCUMENT.docx

New folder.zip

Tips and Tricks

- Uploading folders is not supported.
- Only 10 files can be uploaded at a time. If more than 10 files need to be uploaded, upload them as a zip file.
- Any file that exceeds 2GB within a zip file may experience virus scanning issues.

← Back Continue →

Recipient Options

Please select the appropriate link below:

General

State Employee or login.mt.gov Customer

Department of Labor and Industry

DLI Work Opportunity Tax Credit(WOTC)

Unclaimed Property Reports

FILE TRANSFER SERVICES DISCONTINUED AS OF SEPTEMBER 1ST, 2023!

Unclaimed Property Holder Reporting is now available in our [TransAction Portal \(TAP\)](#).

For additional information see [How to Report Unclaimed Property](#)


A login is not required, submit now at <https://tap.dor.mt.gov/>

Recipients

Recipients

To:


Enter the email address or use the search below

 Find a State Employee

 Find a State Group

First Name

Last Name

 Search

Enter a mess

 Home

 Back

 Send



Reviews:

(112) ★★★★★

- Provide a comfortable and functional workspace

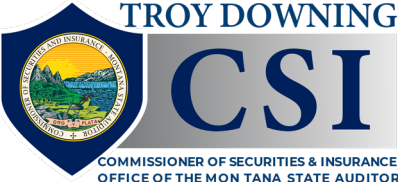
0 / 10

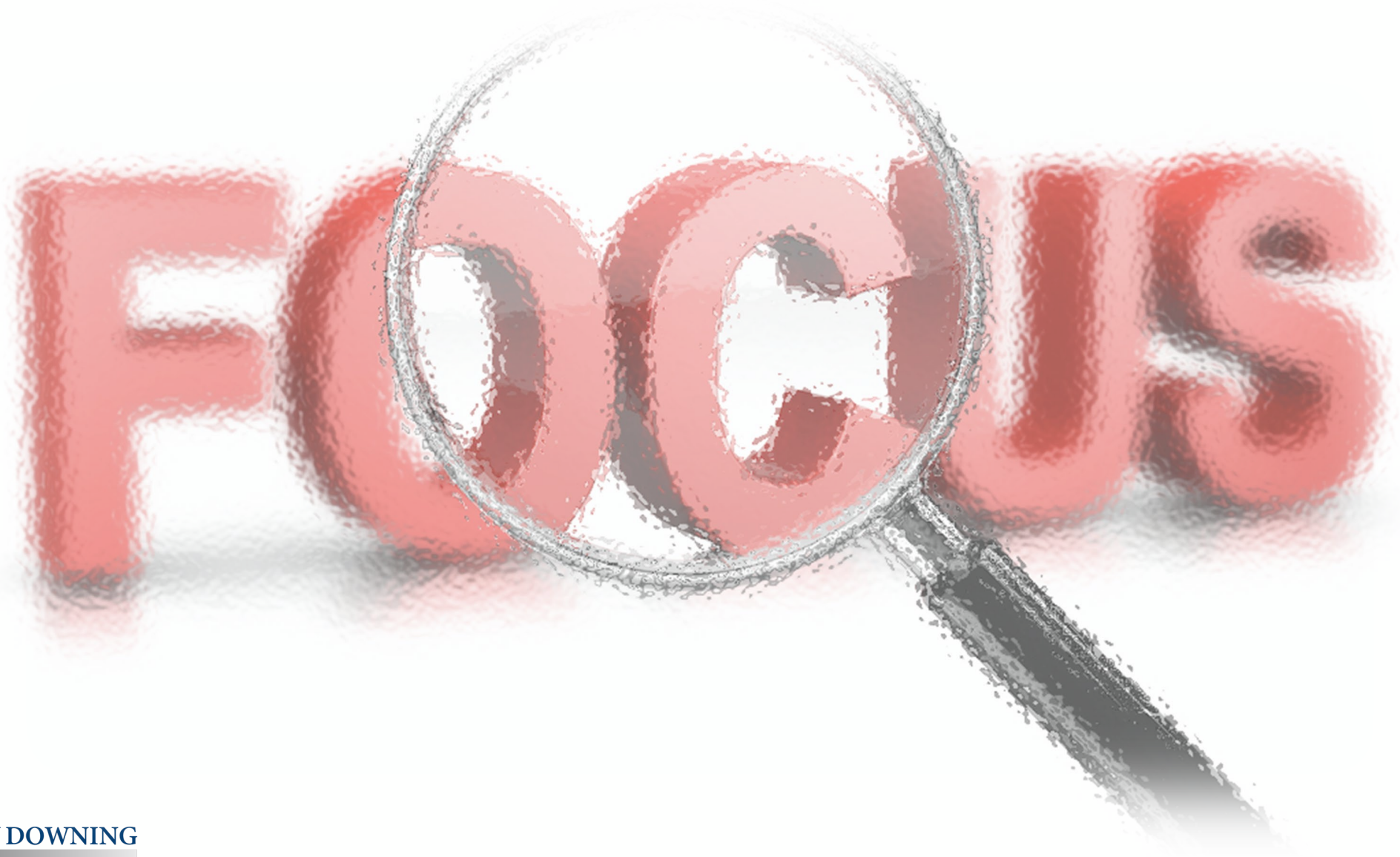
Do not
recommend.



Pursuant to Mont. Code Ann. § 30-10-210, you are billed for the cost of the examination.

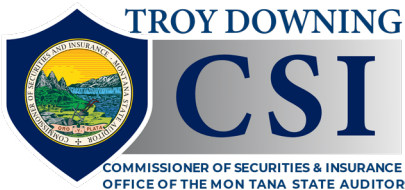
We try to keep your cost down as much as possible.



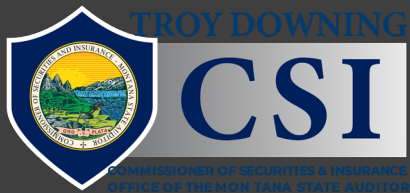




We may be your
regulator, but
we are also a
great resource!



Questions?



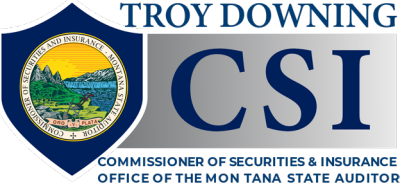
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Examination Enforcement: What Triggers Legal Referrals?



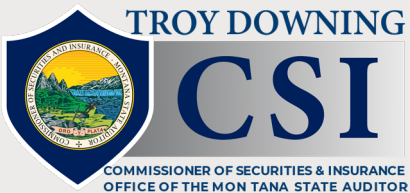
Patrick Murphy
Investigator/Examiner

WHERE ARE YOU?



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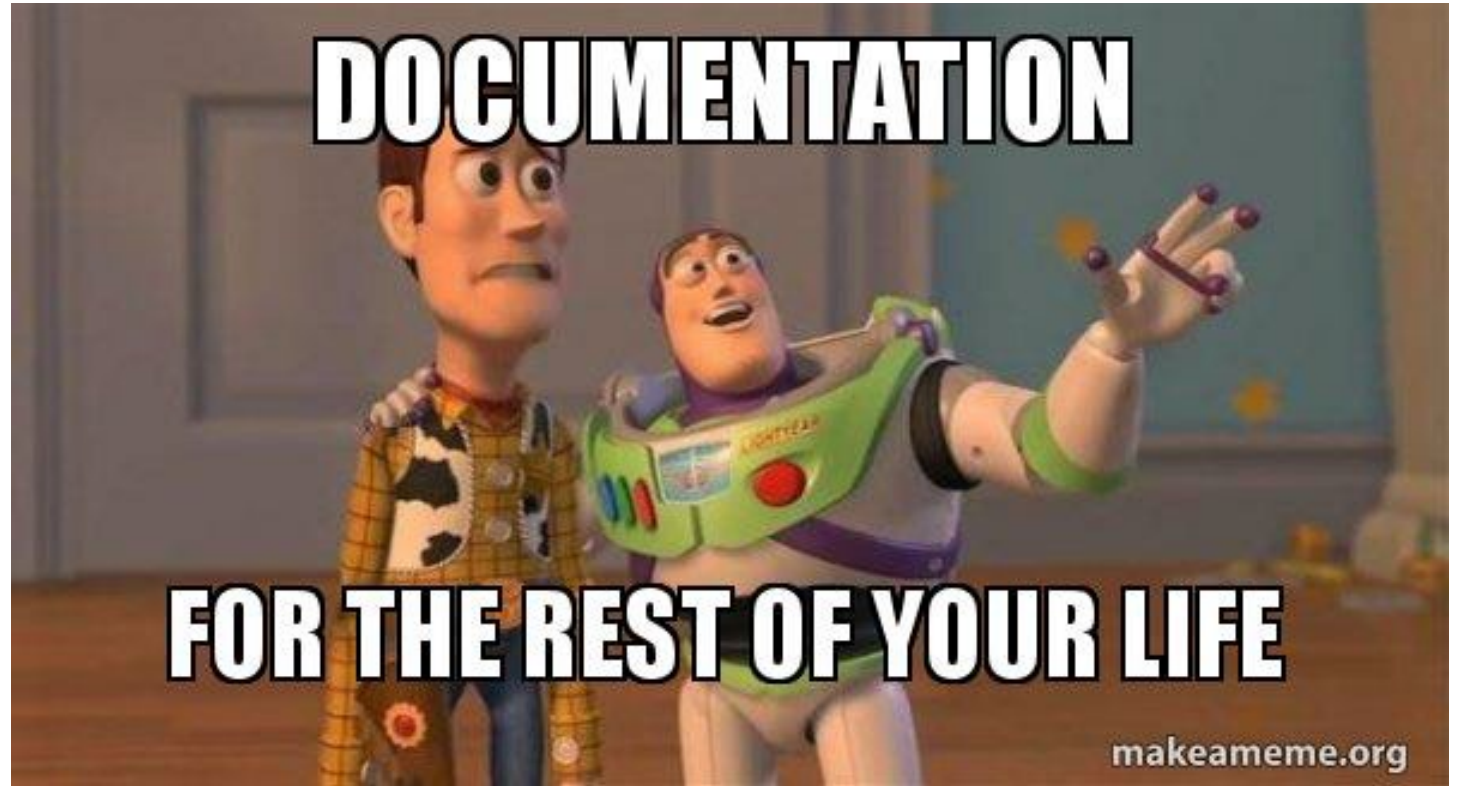
TESTING FOR SUITABILITY



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DOCUMENTATION,
DOCUMENTATION,
DOCUMENTATION!





6.10.402 (p) CLIENT AGREEMENTS

- Details the elements of a contract
- Every client should have a signed contract
- Contracts should be updated for:
 - Any material change in the IA firm
 - Any material life event of the client
 - A change in strategies

ADMIN. R. RULE 6.10.402 (1)(b) DISCRETIONARY POWER



ADMIN. R. RULE 6.10.402 (j)

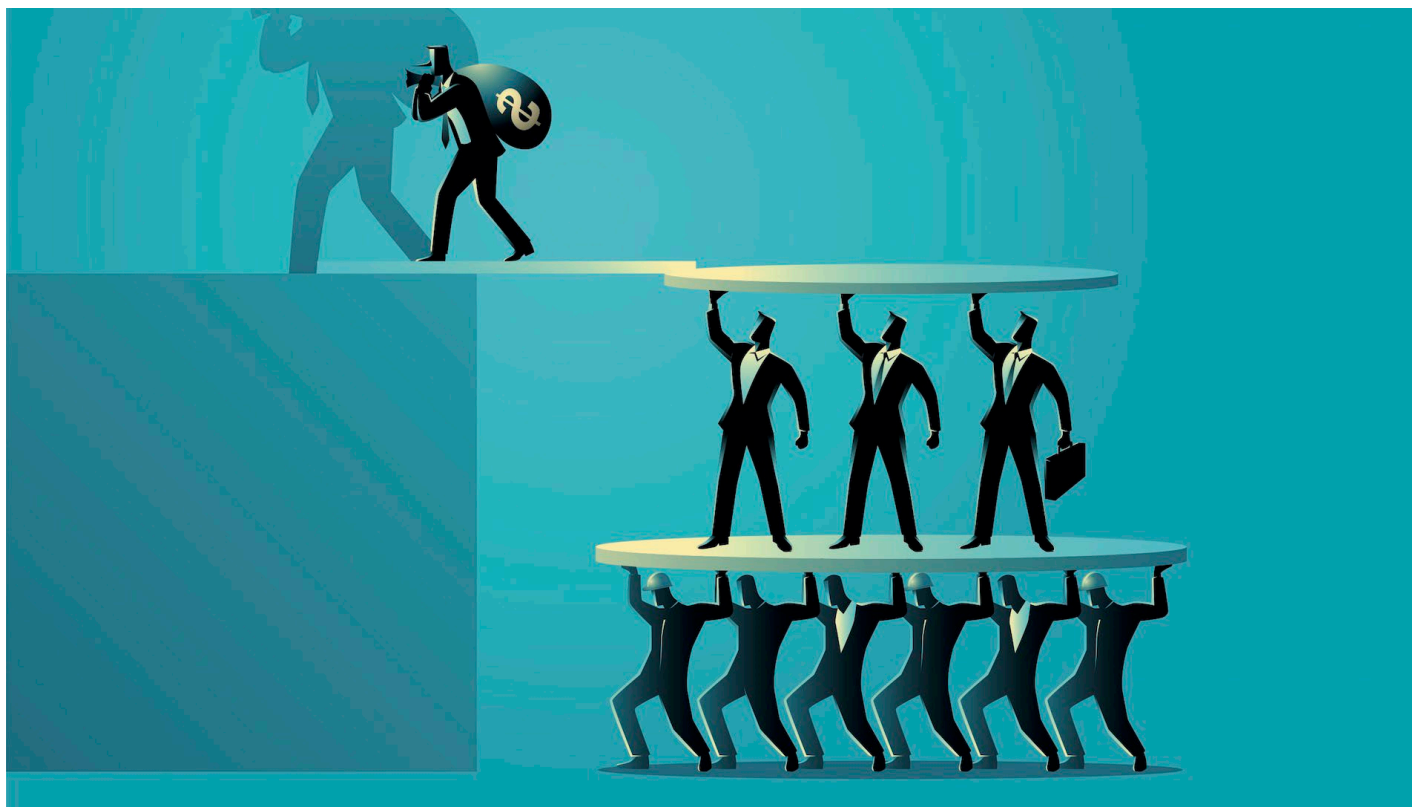
It is a fraudulent and unethical practice to:

Charge a client an advisory fee that is unreasonable in light of the type of services to be provided, the experience and expertise of the investment adviser, investment adviser representative, or federal covered adviser, the sophistication and bargaining power of the client, and whether the investment adviser, investment adviser representative, or federal covered adviser has disclosed that a lower fee for comparable services may be available from other sources

MARKETING



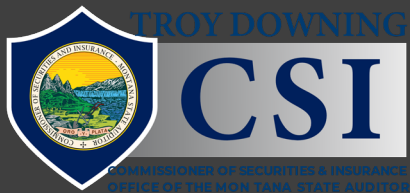
PONZI SCHEMES



PIG BUTCHERING SCHEMES



Questions?



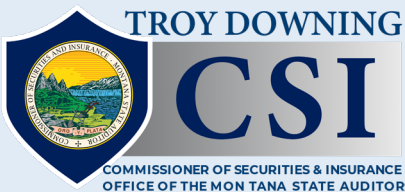
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Legislative Updates & Coming Changes



Brett Olin

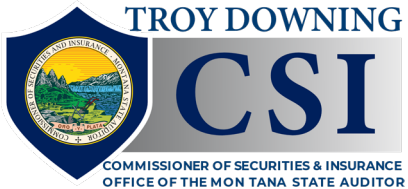
Deputy Securities Commissioner



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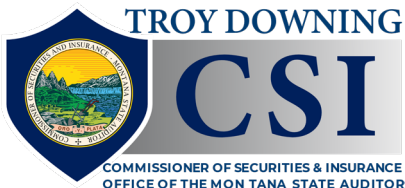
Participating Jurisdictions



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**MAINTAINING
QUALIFICATIONS
PROGRAM (MQP)
&
EXAM VALIDITY
EXTENSION
PROGRAM (EVEP)**



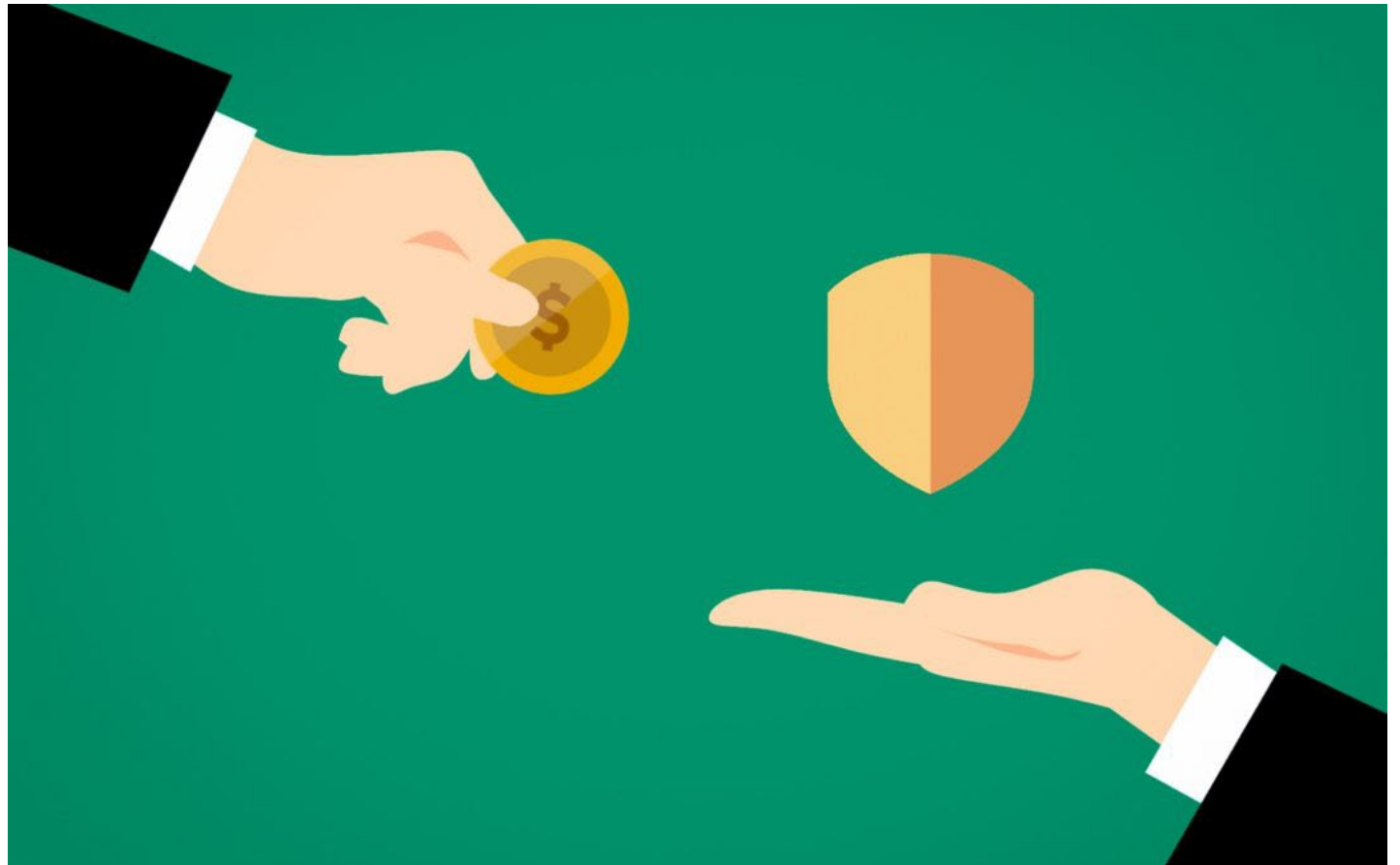
MONT. CODE ANN.

§ 30-10-307: REGISTRATION VIOLATIONS

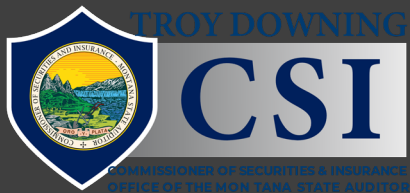
§ 30-10-201 14: 30 DAYS – 90 DAYS



REGULATION BEST INTEREST



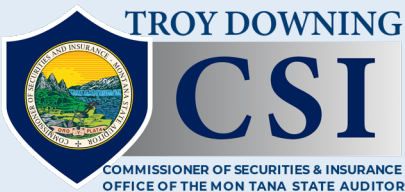
Questions?



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New Products, New Models

By Drew Cziok & Brett Olin



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Overview

- New offerings and emerging developments in technology are quickly changing the investment space
- Examples of alternative offerings
- Considerations for Investment Advisers
- Becoming literate in these new investments
- Speaking to clients about these investments

CRYPTOCURRENCY

CRYPTOCURRENCY: EMERGING PRODUCTS

- Vehicles for indirect cryptocurrency exposure
 - Cryptocurrency Trusts (Grayscale, etc.)
 - Bitcoin Futures ETFs
 - Potential Bitcoin Spot ETF



CRYPTOCURRENCY: CUSTODY

- Crypto introduces novel custody issues
- Third-Party Custodians
 - BlockFi and nuanced definitions of “custody”
- Crypto wallets — security, safekeeping of keys, segregation of funds
- DeFi, liquidity pools, and staking
- Airdrops



CRYPTOCURRENCY STAKING AND DEFI

- Current state of securities enforcement actions
- Staking-as-a-service
- DeFi expansion
- Understanding regulatory risks



CRYPTOCURRENCY: SUITABILITY AND RISK

Tom And Gisele Together Again As Defendants In FTX Class-Action

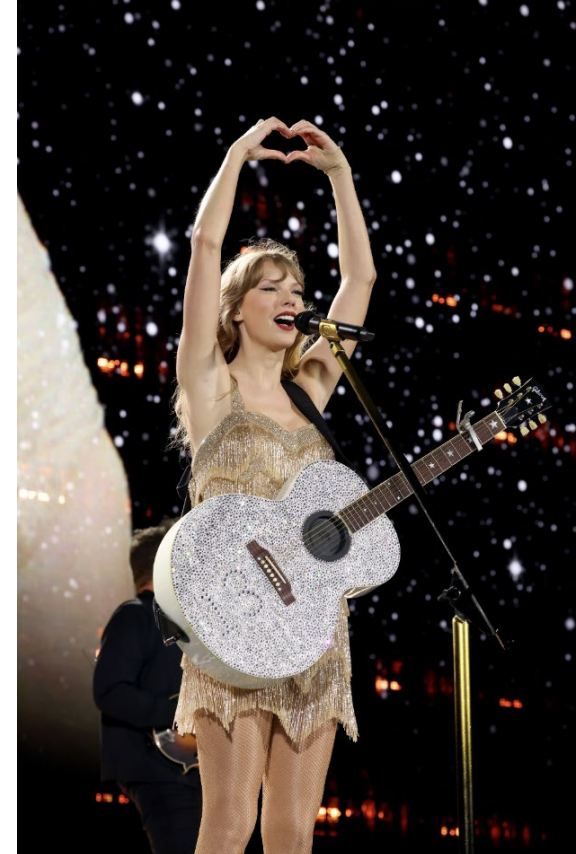


FTX's Sam Bankman-Fried Is Arrested in the Bahamas

New York, Ohio pensions take hits on FTX exposure through Thoma Bravo growth fund

Thoma Bravo, BlackRock, Insight Partners and Sequoia are a few shops that invested in the bankrupt cryptocurrency exchange.

Inside the last moments before FTX collapsed: 'Holy s-t, the company is probably broke'



Taylor Swift didn't fall for FTX because she asked a simple question

"Can you tell me that these are not unregistered securities?"

CRYPTOCURRENCY: SUITABILITY AND RISK

The next Warren Buffett: Why the world is going crazy over the 30-year-old billionaire

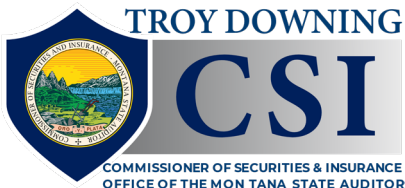
Embattled Crypto Exchange FTX Files for Bankruptcy

Investors Who Put \$2 Billion Into FTX Face Scrutiny, Too

Exclusive: At least \$1 billion of client funds missing at failed crypto firm FTX

Miami Heat to play in FTX Arena after county approves \$135M deal with crypto exchange

FTX's list of investors spans powerful and well-known investment firms: NEA, IVP, Iconiq Capital, Third Point Ventures, Tiger Global, Altimeter Capital Management, Lux Capital, Mayfield, Insight Partners, Sequoia Capital, SoftBank, Lightspeed Venture Partners, Ribbit Capital, Temasek Holdings, BlackRock and Thoma Bravo.



CLIENT HYPE AND EXPECTATIONS

- “Finfluencers”
 - Recent enforcement actions
 - Tempering expectations
 - Parsing misinformation
 - Meme Stocks, other “trendy” investments
 - Precious metals



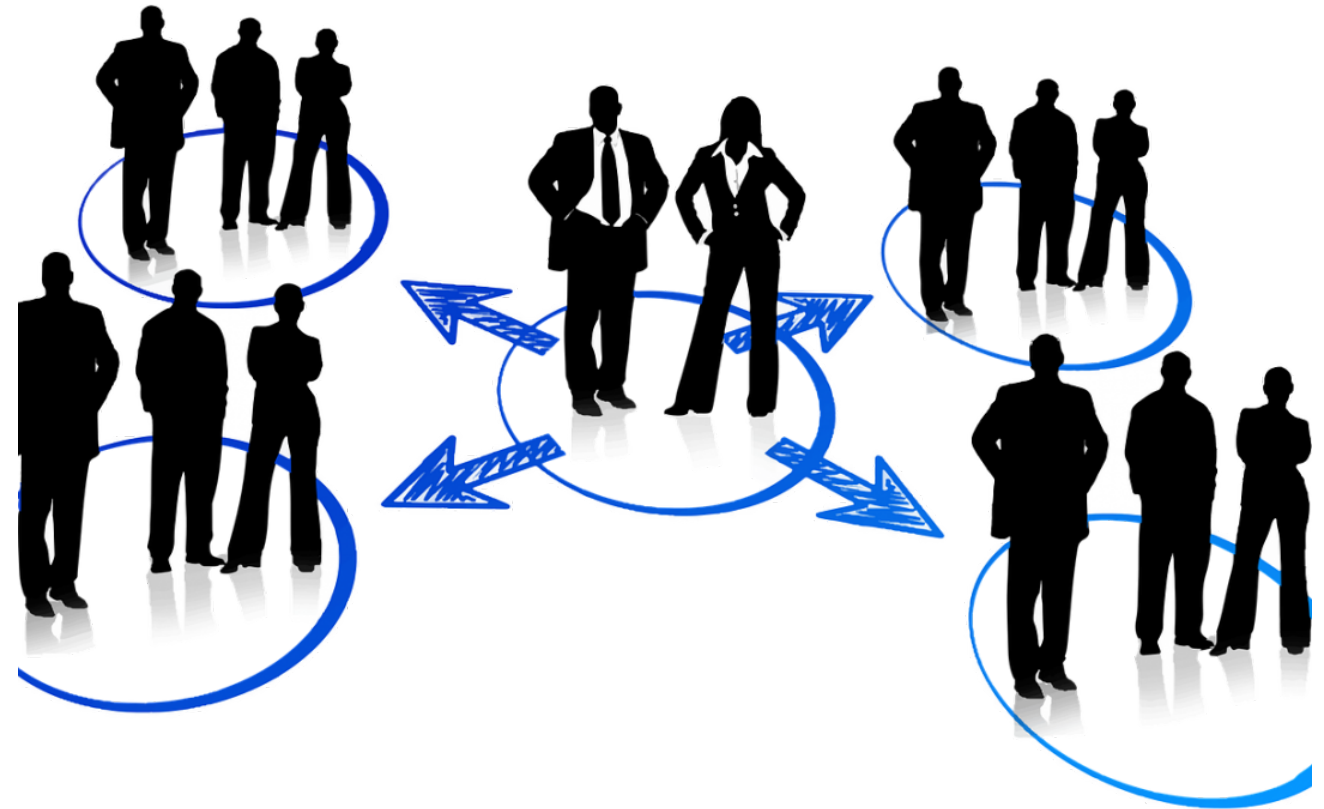
AI AND IAs

- As a standalone investment
 - Be mindful of imitators
 - Uptick in AI scams
 - Echoes of the dot-com boom/bust cycle
- As a tool to assist Investment Advisers
 - Does not relieve the IA of advising duties
 - Assistive tool, not a substitute



CONFLICTS OF INTEREST

- Private Placements
 - Point of emphasis for SEC/FINRA since 2020
- SPACs
 - Recent SEC actions
 - Recent CSI actions
 - Suitability and risk profile



Questions?



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