The Active Manager

Quarterly Journal of the National Association of Active Investment Managers

Vol. 19 Issue 3, June 2022

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How The Fed Put Has Affected Risk Assets

JOHN MCCLURE

THE US FEDERAL RESERVE (FED) ASSET PURCHASES significantly affect the value of risk assets (equity, commodity, real estate, etc.). We recently completed an extensive research project to learn more about this effect and how we might use this information to better trade the financial markets. We reviewed Fed statements, minutes, discussions, and any published information we could find. We also evaluated weekly changes to the Fed's balance sheet going back to 2003. In this article, I am going to share with you our findings.

On January 1, 2008, the Fed balance sheet was $470 billion. For the sake of this article, assets are considered US treasuries and mortgage-backed securities (MBS). Today, its balance sheet is just shy of $9 trillion. The Fed stopped purchasing assets in March of 2022 and will start reducing its balance sheet in June 2022. What does this mean for risk assets in the future?

When the Fed is purchasing assets, they have their foot on the gas. The seller receives cash for their asset(s), adding liquidity to the financial system. The Fed hopes that this cash will increase economic spending. The process of the

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The views and opinions of the authors are not necessarily those of NAAIM, its officers or Board of Directors.

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President's Letter

Ryan Redfern

A GREAT IN-PERSON 2022 Uncommon Knowledge Conference was an excellent way to start a term as NAAIM's President for 2022-2023. The last two years of working to keep NAAIM a vital and valued resource for its members has been challenging, but seeing people again, talking in person, and learning from their experiences made it all worthwhile.

It would be nice to think that the next 12 months will be a calm, ordinary year. But we've opened the Internet's version of Pandora's box and the ideas that spilled out aren't going away. After canceling the 2020 Uncommon Knowledge just weeks before everyone was scheduled to arrive, we pretty much made it up as we went along, taking our UK presentations virtual through webinars, spotlighting sponsors, sharing ideas and experiences through the NAAIM Exchange, holding digital conferences and competitions and much more. It not only worked; it also reshaped how NAAIM provides value to our members.

I am thrilled by the fact that NAAIM survived a difficult time and kept growing. Early on, we were so afraid that we would lose members to Covid, but this is a tough crowd. The membership stayed with NAAIM and we picked up new members over the last two years. Outreach and the focus on providing value made a difference. But we also learned a lot about how we could do better. And that's really the goal going forward. Grow a stronger digital presence, have extraordinary in-person events, reach out and build community through social media. And have fun.

What makes it worthwhile? NAAIM changes companies and advisors for the better.

When my company joined NAAIM, Shadowridge was a $7 million firm. After 2008, we couldn't continue as a passive manager. I knew there had to be a better way to serve our clients and NAAIM offered a means of learning how to do just that, by using active management. Today, we have $100 million under management and are preparing to manage our next $200 million. We never could have gotten here without NAAIM. The close contacts, knowledge, and insights I learned from talking to NAAIM members and sponsor firms saved me years. A lot of our company's growth is due to NAAIM and to the people that I know because of NAAIM.

Given today's market volatility, there are a lot of investment advisers out there much like I was. They are looking for ways to protect their clients and their financial future, while still growing their assets as fast as they can, because building financial security is harder than ever. Our goal is to increase

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NAAIM News

Uncommon Knowledge was back in-person in Tampa, Florida, April 25-27, 2022. While the crowd was smaller than our last conference in 2019, the attendees bridged the missing years with enthusiasm and networking.

Uncommon Knowledge
CONFERENCE 2022

Photo captions clockwise from the top:

Round Table discussions offer an opportunity for members to share experiences and find out what has and hasn't worked for others.

Mike Jones, Ralph Doudera, Ron Rough, and Paul Schatz Explored $100,000 Business Ideas in their panel discussion.

Outgoing NAAIM President Matt Spangler with incoming President Ryan Redfern

Vice President and Capital Markets Strategist at Fidelity Institutional Asset Management Brad Pineault explained why 2022 is Déjà vu 1982.

David Altig, Executive Vice President and Chief of Research at the Federal Reserve Bank of Atlanta addresses the membership with moderator Brian Kasal.

Time out for cornhole and a lot of laughs

Cornhole players or teams take turns throwing fabric bean bags at a raised, angled board with a hole in its far end. The goal of the game is to score points by either landing a bag on the board or putting a bag through the hole. The team of Gareth Johnson and Art Molloy took home the gold medals for 1st place.

A Salute to the Uncommon Knowledge Sponsors

As always, a sincere thank you to our sponsors, who made the 2022 Uncommon Knowledge Conference possible:

Platinum Sponsors:

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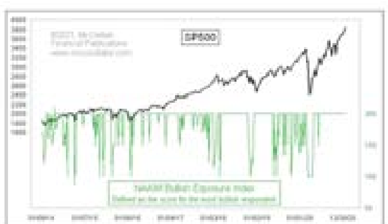
Leverage Your Membership Benefits

Are you familiar with the following NAAIM member benefits? If not, it's time to explore the NAAIM website and member portal.

NAAIM Exposure Index

The NAAIM Exposure Index (https://www.naaim.org/programs/naaim-exposure-index/) represents the average exposure to US equity markets reported by our members. It appears frequently in media reports. The following firms report their equity allocations weekly and in turn are known as NAAIM Trendsetters. New Trendsetters are always welcome!



Dauble+Worthington Equity Portfolios
Heritage Capital
Kensington Analytics LLC
McElheny Sheffield Capital Mgmt
RGB Capital Group
Capital Growth
Blackstone Wealth Management
Signal Research Group

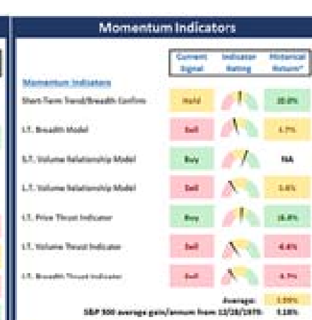
Global View Capital Management
Heritage Capital Research
Investor Resources
Scarecrow Trading
Hepburn Capital
Shadowridge Asset Management, LLC
McMillan Analysis Corp.
Couture Financial, Inc.

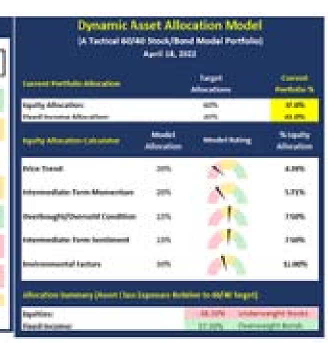
NAAIM INDICATOR WALL

The NAAIM Indicator Wall is a password protected page found at https://www.naaim.org/programs/naaim-indicator-wall/. The Wall features an array of indicators updated weekly including:

- Early Warning
- Fundamental Factors
- Key Price Levels
- Market Momentum
- NAAIM Dynamic Asset Allocation Model
- Primary Cycle
- Trend Analysis

Contact NAAIM administrator Susan Truesdale (info@naaim.org) if you need a password to access the Wall.





Leverage Your Membership Benefits

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GROUP MEETINGS

In addition to our two annual conferences, the NAAIM Exchange meets virtually the last Thursday of every month. Our Uncommon Knowledge Conference is a three-day event scheduled at the end of April. Meeting sites alternate between East and West Coast. OUTLOOK meets late October-early November mid-continent. OUTLOOK is a two-day conference which features a member-driven agenda.

Uncommon Knowledge CONFERENCE 2022

OUTLOOK 2021 CONFERENCE

SOLO ADVISORS MEETING

The Solo Advisors Meeting is held Sunday before Uncommon Knowledge to give smaller firms an opportunity to discuss issues unique to their structure. The 2022 meeting focused on several topics, including:

- Compliance & Audit Experiences;
- Compared Custodians: Pros/Cons;
- What Technology is being used;
- Trading and Tax Strategy.

INFO HUB

INFO Hub is the members-only section of the NAAIM Website. Here you will find:

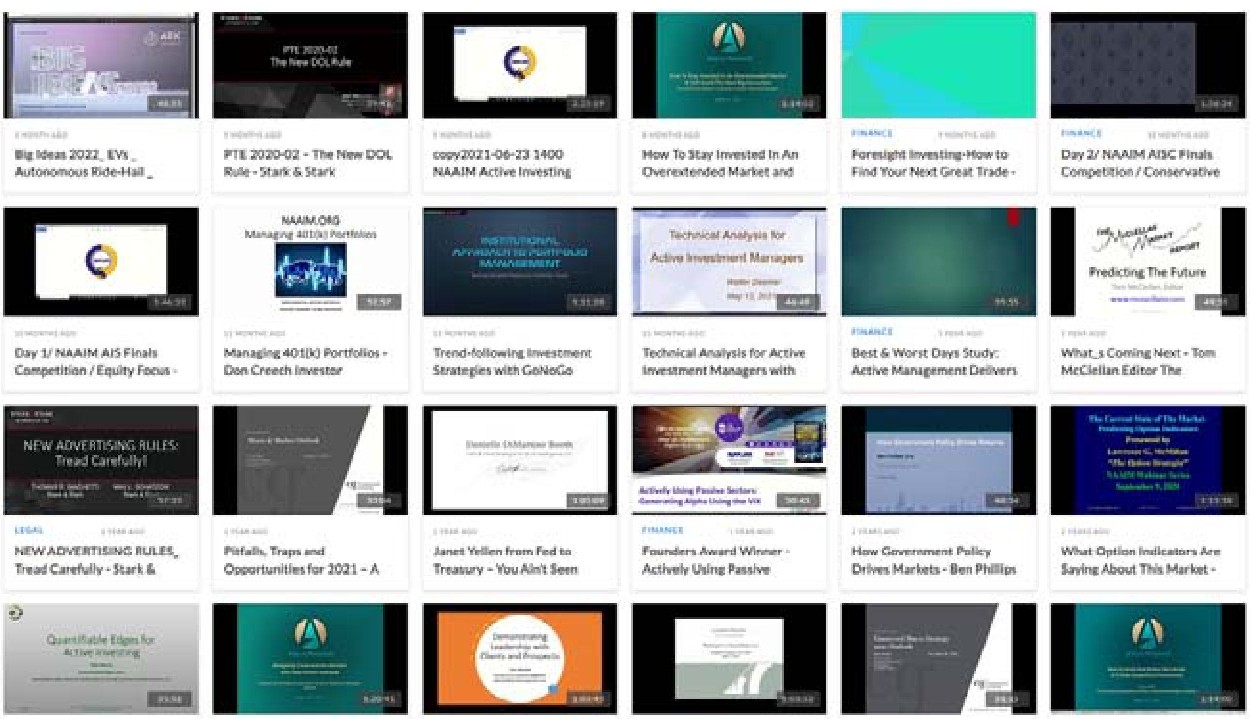
- Access to the NAAIM Forums Board – Our On-Line Community
- Membership and Sponsor Directory*
- Event & Webinar Registration
- Resources*
- Founders Award papers
- Conference handouts
- Speaker info
- Webinar Library
- Billing (Membership Renewal)

*Members can edit and update their directory listing & add resources to the resource library. The more input and participation by YOU, the more useful the directory will be for everyone.

The Forums Board is your opportunity to discuss issues online with the NAAIM membership and tap into the experience and resources of others.

WEBINAR SERIES

The Webinar Library offers more than 30 recorded webinars available for replay.



Leverage Your Membership Benefits

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SOCIAL MEDIA

- *NEW* … NAAIM Facebook Group (NAAIM Membership is not required to join the Facebook group)- https://www.facebook.com/groups/567938514901831/
- Twitter – Follow us at: @NAAIM_official
- LinkedIn - https://www.linkedin.com/company/33068164/admin/

OTHER NAAIM PROGRAMS

- Founders Award for Advances in Active Investment Management – our white paper competition
- Active Investing Strategy Competition
- NAAIM Speaks – compilation of member blog articles
- The Active Manager Quarterly Newsletter
- Vendor Discounts – Check with Sponsors

With all of the NAAIM Programs, people are the value add! The expertise of our membership in using active investment management strategies and growing their advisory practices is an invaluable resource.

President's Letter CONTINUED FROM PAGE 1

NAAIM's visibility as THE place for active management, the go-to association for RIAs who want to do more than buy-and-hold for their clients.

The 2022 NAAIM board is a younger board, with a diverse group of new members who are actively using social media. We look forward to tapping into their strengths to create an online NAAIM community for advisors. In the past, the most important value of being a member came from in-person conferences and the ability to build personal relationships. The future of NAAIM must incorporate a greater focus on digital outreach. More webinars, podcasts, outreach at industry conferences, and so much more.

NAAIM has a tremendous amount to offer that even our own members often overlook. On page 4, you'll find highlights of on-going programs. If you haven't visited these resources lately, you may want to take some time to do so. You'll find they are better than ever. Have a suggestion for how our resources can be more valuable? Contact your NAAIM board members! We need your ideas and your help. Have you found the NAAIM active investment management competition (i.e., Shark Tank) of value in the past? We need your help to make this a stronger program and keep it going. Know an advisor who could use the expertise and knowledge of the NAAIM membership? Invite them to participate in the webinars and online programs and to attend the 2022 OUTLOOK conference.

NAAIM's conferences are back in-person because while online presentations are great and fill in between meetings, the conversations at the conferences are the best learning experiences. If we can keep these conversations going between the UK and OUTLOOK conferences with the NAAIM Exchanges and other digital events, relationships and sharing information will become even stronger.

At the board level, we need to communicate better what active management is. There's a huge misconception that active means day-trading. We know the difference, but do the media and other RIAs? The current market environment is going to have a lot of advisors looking for an alternative to passive strategies, a different way to go. We need them to find NAAIM.

This is a time for active managers to look great. Go for it, and if there is any way NAAIM can help you be an even better active manager, talk to us! I also encourage you to explore the resources available on the members' side of our website as well as the social media outlets (Facebook, Linkedin, and Twitter).

We need you. And the entire industry does, too.

I hope to see you at a NAAIM event soon,

Ryan Redfern
NAAIM President

How The Fed Put Has Affected Risk Assets CONTINUED FROM PAGE 1

Fed adding liquidity to the market is commonly known as Quantitative Easing. When the Fed sells assets, it is called Quantitative Tightening. When they normalize their balance sheet, they let the bonds on their balance sheet mature and don't replace them with new bonds, thus shrinking the size of their balance sheet.

Based on our research, the only thing that seems to matter is whether the Fed is purchasing assets - "gas on." If they have their foot on the gas, risk assets get a bid. On the other hand, if they stop purchasing assets, start selling assets, or normalize their balance sheet, volatility spikes and risk assets decline in value - "gas off."

When the Fed purchases assets, it is usually a knee-jerk reaction to the markets. Think March 2020. When they stop buying assets, the Fed normally gives the markets at least two months' notice but sometimes longer. On December 28, 2021, we were told that the Fed would stop purchasing assets in March 2022. Since then, what has happened is what typically happens each time the Fed gives such a warning. In other words, you don't need to wait until the Fed officially stops purchasing assets to pare down your risk exposure. Volatility generally spikes shortly after the announcement.

Now the bad news. Other than cash, there has historically been no place to hide. Since 2008, when the Fed took its foot off the gas, most risk assets did poorly. Some may go flat but most drop like a safe. It may be different this time around for commodities, but historically, this wasn't the case. Below in Table 1 is a side-by-side comparison of risk asset performance during "gas on" vs. "gas off" environments.

	S&P 500 - SPY		Real Estate - VNQ		Commodities - DBC	
Stats	Gas On	Gas Off	Gas On	Gas Off	Gas On	Gas Off
Max DD	-22.06%	-47.46%	-38.05%	-65.34%	-63.86%	-70.20%
Avg DD	-2.62%	-30.58%	-5.06%	-48.97%	-29.54%	-56.75%
Stdev	14.32%	18.89%	19.62%	30.38%	16.72%	20.57%
Sharpe	1.00	(0.20)	0.83	(0.24)	0.20	(0.42)
Profit Factor	1.27	0.95	1.21	0.93	1.06	0.92
Avg Ann.	13.70%	-2.59%	14.92%	-6.40%	2.98%	-5.98%
% Invested	62.06%	37.94%	62.06%	37.94%	62.06%	37.94%

Table 1: Risk asset performance when the Fed purchases assets vs. when they are not buying assets.

The Fed officially begins reducing its balance sheet in June 2022. The official plan is in Table 2 below:

Assets	June	July	August	After August
Mortgage-Backed Securities	$17.5 B	$17.5 B	$17.5 B	$35 B
US Treasuries	$30 B	$30 B	$30 B	$60 B

Table 2: Amounts represent billions of dollars per month.

Unlike the US Treasury, the Fed cannot give money directly to citizens. However, they have figured out a work-around to this limitation by purchasing MBS.

- The Fed has learned that buying MBS lowers mortgage interest rates.
- Lower mortgage interest rates cause real estate prices to increase.
- When real estate values increase, people take second mortgages and pull cash out of their overvalued real estate.
- Consumers flush with cash spend money, causing risk assets to appreciate.

The Fed did the right thing by purchasing MBS in 2009 because the market suffered from a lack of liquidity. There was no reason to do so in 2020. Since the bottom of the COVID era, they have purchased $1.5 trillion in MBS. Real estate is a very levered trade, so the MBS stimulated wealth effect is primarily caused by levered money. If real estate declines, it can get ugly fast.

We cannot find a time when the Fed sold assets into the secondary market. They may have done small amounts in the past, but it rarely happens. At their purchase peak in 2020, the Fed became one-third of the market for MBS. Transitioning from a dominant liquidity provider to a net seller could cause mass pandemonium. Their preferred method is to normalize their balance sheet by letting assets mature over time, but it may not have that luxury. The Fed's goal in September and beyond is to reduce their MBS by $35 billion a month. Because MBS has a long duration and fewer people will be refinancing their mortgages due to higher interest rates, the Fed may have to sell MBS into the secondary market to hit its 35-billion-dollar goal.

Since 2008, the market has become addicted to Fed stimulation. Over the last 14 years, the Fed has conducted four quantitative easing programs. Be careful with your decisions moving forward because you are likely making your decisions based on a market environment that the Fed has heavily manipulated. Breaking the addiction will be difficult, but hopefully, inflation will force the Fed's hand to stop manipulating financial markets via asset purchases. Everyone is a capitalist in a bull market but quickly becomes a socialist during bear markets - this has to change!

Spiraling inflation will likely cause the "Fed Put" to go away. Based on what we have learned, there is significantly more downside risk than normal. At a minimum, expect high levels of volatility as the market attempts to find an equilibrium. There have been 26 bear markets since 1929, with an average decline of -35.62%. Based on this average, the S&P 500 would bottom at (4,804.06 x 64.38% = 3,093). If the Fed continues with its stated interest rate increase and balance sheet reduction plan, you should expect this bear market to be worse than normal. Have we been here before? It strangely feels like May of 2008. Good trading!

John McClure is President and CIO of ProfitScore Capital Management, Inc. and leads the firm's research and development efforts focusing on developing and implementing quantitative-based investment strategies. The firm specializes in long/short, short-term systematic investment strategies. Mr. McClure has been involved in quantitative-based research for over 25 years.

How Daily Resetting 300% Leveraged ETNs May Perform in Bull, Bear and Volatile Market

BANK OF MONTREAL AND REX SHARES

For those investors that are bullish, certain MicroSectors daily-resetting leveraged Exchange-Traded Notes (ETNs) may offer investors the ability to participate in 300% of the daily return of specific indices, before taking into account fees and expenses. Sophisticated investors that have a bullish view may consider a 300% leveraged daily-resetting ETN to gain triple the daily return of the benchmark index. This article provides an overview of how these products perform in different environments.

Leveraged ETNs may be a suitable investment for you if:

- You seek a short-term investment with an upside return linked to a three times leveraged participation in the performance of the applicable index, compounded daily.
- You understand (i) leverage risk, including the risks inherent in maintaining a constant three times daily leverage, and (ii) the consequences of seeking leveraged investment results generally.
- You are a sophisticated investor, understand path dependence of investment returns and you seek a short-term investment in order to manage daily trading risks.
- You are willing to accept the risk that you may lose some or all of your investment.

Leveraged ETNs may not be a suitable investment for you if:

- You do not seek a short-term investment with a downside return linked to a three times leveraged participation in the performance of the applicable index, compounded daily.
- You do not understand (i) leverage risk, including the risks inherent in maintaining a constant three times daily leverage, or (ii) the consequences of seeking leveraged investment results generally.
- You are not a sophisticated investor, do not understand path dependence of investment returns or you seek an investment for purposes other than managing daily trading risks.
- You are not willing to accept the risk that you may lose some or all of your investment.

Hypothetical ETN Performance

The following examples and tables illustrate how daily resetting 300% leveraged ETNs would perform over a period of five trading days in different circumstances. They are intended to highlight how the return on the ETNs is affected by the daily performance of the applicable index, leverage, compounding and path dependency, before product fees and expenses.

The resetting of the leverage on each day is likely to cause each note to experience a "decay" effect, which is likely to worsen over time, and will be greater the more volatile the level of the index. The "decay" effect refers to a likely tendency of the notes to lose value over time.

Accordingly, the notes are not suitable for intermediate- or long-term investment, as any intermediate- or long-term investment is very likely to sustain significant losses, even if the index appreciates over the relevant time period. Although the decay effect is more likely to impact the return on the notes the longer the notes are held, the decay effect can have a significant impact on the note performance even over a period as short as two days.

The notes are suitable only for sophisticated investors. If you invest in the notes, you should continuously monitor your holdings of the notes and make investment decisions at least on each trading day.

All the examples assume that the notes were purchased on day 0 at an indicative note value of $50 and disposed of on day five at the applicable indicative note value, and that no market disruption events occurred. For ease of analysis, all values have been rounded to two decimal places, and no product fees or expenses were included in the calculations. *(In contrast, an actual exchange traded note will have fees built into the product that would reduce the indicative note value and an investor's return.)*

Hypothetical Examples

Example #1:

Day	Index Level	Daily Index Performance	Closing Indicative Note Value	Daily Note Return
0	100.00		$50.00	
1	103.00	3%	$54.50	9%
2	99.91	-3%	$49.60	-9%
3	102.91	3%	$54.06	9%
4	99.82	-3%	$49.19	-9%
5	102.81	3%	$53.62	9%

The index level alternatively increases then decreases by a constant rate of 3.00% per day, with the index level increasing by 2.81% by day five and with a note return of 7.24%.

<u>Assumptions</u>
Principal Amount: $50.00 Initial Index Level: 100.00 Note Return: 7.24%
Cumulative Index Return: 2.81% Final Indicative Note Value: $53.62

continued next page

Daily Resetting 300% Leveraged ETNs CONNTINUED

Example #2:

Day	Index Level	Daily Index Performance	Closing Indicative Note Value	Daily Note Return
0	100.00		$50.00	
1	99.00	-1%	$48.50	-3%
2	98.01	-1%	$47.05	-3%
3	97.03	-1%	$45.63	-3%
4	96.06	-1%	$44.26	-3%
5	95.10	-1%	$42.94	-3%

The index level decreases by a constant -1.00% per day, with the index level decreasing by -4.90% by day five and with a note return of -14.12%.

Assumptions
Principal Amount: $50.00 Initial Index Level: 100.00 Note Return: -14.12%
Cumulative Index Return: -4.90% Final Indicative Note Value: $42.94

Example #3:

Day	Index Level	Daily Index Performance	Closing Indicative Note Value	Daily Note Return
0	100.00		$50.00	
1	101.00	1%	$51.50	3%
2	102.01	1%	$53.05	3%
3	103.03	1%	$54.64	3%
4	104.06	1%	$56.28	3%
5	105.10	1%	$57.96	3%

The index level increases by a constant rate of 1.00% per day, with the index level increasing by 5.10% by day five and with a note return of 15.92%.

Assumptions
Principal Amount: $50.00 Initial Index Level: 100.00 Note Return: 15.92%
Cumulative Index Return: 5.10% Final Indicative Note Value: $57.96

Example #4:

Day	Index Level	Daily Index Performance	Closing Indicative Note Value	Daily Note Return
0	100.00		$50.00	
1	110.00	10%	$65.00	30%
2	112.20	2%	$68.90	6%
3	108.83	-3%	$62.70	-9%
4	103.39	-5%	$53.29	-15%
5	111.66	8%	$66.08	24%

The index level increases in a volatile manner, with the index level increasing by 11.66% by day five and with a note return of 32.16%.

Assumptions
Principal Amount: $50.00 Initial Index Level: 100.00 Note Return: 32.16%
Cumulative Index Return: 11.66% Final Indicative Note Value: $66.08

Are Leveraged ETNs right for everyone?

No – leveraged ETNs are not intended for all investors. Due to the riskiness of these products, the complexity of daily resetting leverage, the nature of path dependency and the fact that these investments are meant to be held for short-term periods, sometimes less than a single day, these investments are not for everyone. Leveraged ETNs are designed to magnify the performance of a particular index on a daily basis. For example, a 300% daily resetting ETN linked to an index that declines 3% in a single day could potentially result in a 9% loss to investors before fees and expenses. The ETNs are intended to be daily trading tools for sophisticated investors to manage daily trading risks as part of an overall diversified portfolio. Only sophisticated investors who understand daily resetting ETNs and their risks should consider investing.

Please consider the following additional information about ETNs that is set forth in the links below

- 3 trading advantages of ETNs versus ETFs
- A pure "Big Tech" exposure with 300% leverage

Additional Important Information:

Daily resetting leveraged ETNs may outperform in a positive trending performing market, underperform in a negative trending market, and depending on the volatility and index performance in a volatile market, outperform or underperform alternative investment strategies. Accordingly, the notes are not suitable for intermediate- or long-term investment, as any intermediate- or long-term investment is very likely to sustain significant losses, even if the index appreciates over the relevant time period. The notes are suitable only for sophisticated investors. If you invest in the notes, you should continuously monitor your holdings of the notes and make investment decisions at least on each trading day.

The exchange traded notes are subject to the credit risk of Bank of Montreal, the issuer of the ETNs. The ETNs are also subject to the issuer's credit ratings, and the issuer's credit spreads may adversely affect their market value.

Leveraged ETNs are intended to be daily trading tools for sophisticated investors to manage daily trading risks as part of an overall diversified portfolio. They are designed to achieve their stated investment objectives on a daily basis. The returns on the ETNs over longer periods of time can, and most likely will, differ significantly from the return on a direct long or short investment in the index. Investors should carefully review the applicable offering documents for an ETN prior to making an investment decision.

Bank of Montreal, which participated in the preparation of this article, and is the issuer of ETNs described on REX's website, has filed a registration statement (including a pricing supplement, a product supplement, a prospectus supplement and a prospectus) with the Securities and Exchange Commission (the "SEC") about each of the offerings to which this free writing prospectus relates. Please read those documents and the other documents relating to these offerings that Bank of Montreal has filed with the SEC for more complete information about Bank of Montreal and these offerings. These documents may be obtained without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Bank of Montreal, any agent or any dealer participating in these offerings will arrange to send the applicable pricing supplement, product supplement, prospectus supplement and prospectus if you so request by calling toll-free at 1-877-369-5412.

The Compliance Implications of a Remote/Hybrid Workforce in Financial Services

HARRIET CHRISTIE

ON DECEMBER 17TH 2021, JP MORGAN WAS fined a combined total of $200 million by regulators after admitting to 'bookkeeping failures'. This centered around the use of employees' personal devices, from which Whatsapp messages, text messages and emails were sent for business purposes.

Prior to this, serious penalties for failing to maintain proper records had been rare; the last major SEC fine for such conduct was for $15 million, against Morgan Stanley in 2006. The regulator acted decisively and revealed that this particular inquiry had prompted fresh investigations into other financial firms' records.

As the Omicron variant has wreaked havoc globally, the evolution of digital communications tools and employee habits means that businesses are constantly playing catch-up with impending legislation. What this fine tells us is that despite its lasting impact, the pandemic's grace period is over, and 'adapting to remote work' will no longer be deemed a valid excuse for failures in regulatory compliance.

Not just 'post-pandemic'

While it may have momentarily (and in fact intermittently) bulldozed offices worldwide, the increase in remote working habits can't solely be attributed to the impact of COVID-19. In fact, PwC's Remote Work Survey found that prior to March 2020, 29% of financial services companies had at least 60% of their workforce working from home at least once per week. The percentages will of course have surged dramatically since, but these preceding figures are not insignificant, and reflect a greater openness to the benefits of a remote/hybrid workforce, before companies' survival was at stake.

For most businesses, however, these advantages have become apparent through necessity; silver linings in an otherwise unfavorable scenario. Aside from additional flexibility and the impact that has on employee satisfaction, the reduction/removal of geographical restrictions has enabled businesses to attract a far greater pool of talent. And while there are some obvious disadvantages to siloed employees, the temptation to rip up the office lease will surely have been too great for many businesses, and particularly those in survival mode.

By being forced to adapt overnight, financial services firms and employees proved that remote work could be implemented, and effectively in many cases. The same PwC survey reported, 'FS executives told us that 95% or more of their office workers switched to working from home during the crisis and, by and large, they maintained or improved productivity'.

Having proven that they could be trusted to do their jobs outside of the supervised office environment, most employees next found themselves acquainted with the hybrid work model, of which they mostly approved. Over the course of 2021, the number of available permanent remote positions doubled from 9% to 18%, and is expected to increase to 25% by the end of 2022. For those companies embracing remote/hybrid workforces permanently, the impact on regulatory compliance will be significant.

New Tools and Habits

While it was likely to rest at the top of most executives' agendas, productivity is not the only characteristic to have been affected by a change in working environment.

With cross-desk queries and water cooler conversations off the agenda, communication tools had to be harnessed as alternatives, particularly if that all-important employee productivity was to be maintained. Virtual meetings have replaced boardroom discussions, and social media became a pivotal networking tool in the absence of conferences and live events.

Communication and collaboration tools such as Slack, Zoom and Microsoft Teams have become emblematic of the era, seeing widespread adoption globally. Microsoft Teams alone rose from 32 million daily active users in March 2020 to 145 million as of October 2021. One by-product of this new generation of tools is that we have seen an escalation in the number of workers using personal phones or tablets for business, as the BYOD trend has taken hold. This certainly complicates the compliance landscape, as perfectly demonstrated by the JP Morgan case.

Data proliferation must also be taken into account, as typed and video communications have largely replaced verbal conversations. Companies need to think hard about where this information will be stored and whether the existing infrastructure can handle such exponential increase. If not, they need to consider their options, whether that means backing up/archiving existing data or investigating the viability of cloud-based solutions.

One undeniable reality is that people tend to be bolder at home, and are more comfortable behaving recklessly online than they would in the office, where they'd be monitored more closely. Bad habits can creep in, and this casual conduct increases the number of compliance risks businesses are forced to contend with. This has been exacerbated by the influx of new devices and communications channels, particularly given the informal ethos that instant messaging and ad hoc virtual meetings can cultivate. It's therefore vital that any data archiving platform utilized by businesses can capture and store *all* the communication channels that an organization uses to conduct business.

What Happens Now?

With an ever-increasing backlog of ubiquitous tools still awaiting regulatory guidance, it's no longer practical to wait for direction before determining their suitability for your business. Even within the tools themselves, new functionalities are being added more quickly than the rules can be updated.

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The Compliance Implications of a Remote/Hybrid Workforce…

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More firms will therefore need to pre-empt what will need to be recorded, and are best advised to err on the side of caution and capture everything, rather than potentially creating an unmanageable backlog. FINRA Rule 3110(b)(4), for example, loosely states that financial institutions must review internal communications and flag those that require review under FINRA regulations, through whatever platform that may be.

Doing Your Homework

COVID-19 has accelerated a transition that had already begun to build mild traction in the financial services industry. Businesses have been forced to realize that physical proximity is not necessarily a requirement for staff, particularly with the communications arsenal now at our disposal.

2020's seismic and immediate global shift to remote working exposed advantages that we perhaps wouldn't have considered if we weren't forced to experience them. This has led to many businesses acknowledging these reciprocal benefits, and embracing a remote or hybrid work model permanently.

This trend is likely to continue. To implement it successfully, firms must incorporate technology that promotes compliant digital collaboration among employees and teams. And rather than waiting for guidance, they should do so in a proactive manner. After all, the adaptation period is over, and a $200 million fine is likely to extinguish even the hardiest of Christmas spirits.

About the Author

***Harriet Christie** was appointed Operations Director with MirrorWeb in 2020. Since then, she has helped oversee the evolution of the MirrorWeb product and service offering, as well as the business' growth despite challenging circumstances. Harriet graduated from the University of Sheffield in 2010, with a BA in Management Accounting, Entrepreneurship, Business Law, BSR, HR. She entered the Tourism space, starting as an Accounts Executive at LateRooms.com, and earning the title of Global Accounts Manager within three years. She occupied this role for a further five years, before taking up her role as a Key Account Manager with MirrorWeb, a data archiving solution based in Manchester.*

About MirrorWeb

Having a deep understanding of regulations from the SEC, FINRA, and various European regulatory bodies, MirrorWeb is a leading provider of compliance solutions including email, SMS and website archiving. The platform is also capable of monitoring and capturing the instant messaging and social media platforms that have surged in popularity since 2020. In addition to helping your company comply with SEC regulations, our solutions and services can also provide insights and additional protections.

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NAAIM BEGAN IN 1989 WITH A SMALL GROUP of investment advisors who formed an alliance with one another centered around their common use of active investment strategies.

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If you are looking for an ongoing conversation with investment managers who subscribe to the benefits of active investment management and are willing to share their knowledge and resources with one another, check out NAAIM's Facebook group! Visit https://www.facebook.com/groups/567938514901831/ or scan the QR code shown here:

Join the conversation! Membership in NAAIM is not required. A willingness to share and participate in group conversations is requested!

Questions? Contact NAAIM at 888-261-0787 or info@naaim.org

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Best Practices When Implementing Email Archiving

HARRIET CHRISTIE

EMAIL ARCHIVING IS COMMON AMONG FINANCIAL services companies, which must retain all business emails for several years under regulations from the Securities Exchange Commission (SEC) and other agencies. Companies outside of the financial services industry can also benefit from an email archive. Archived emails can be invaluable in the event of legal proceedings. An archive is a repository of tribal information, which can support HR functions and act as a source of business insight.

Because of its potential value, an email archive must be set up properly. By following email archiving best practices, a company can ensure its archive functions properly and serves its purpose effectively. For instance, some companies may assume that their email platform serves as a default archive. However, even common platforms such as Office 365 don't always come with long-term archiving capabilities. A smart, proven approach is therefore essential to maintain a useful archive.

Consult with Legal Team to Remain Compliant

Various businesses and industries are governed by different regulations. For instance, organizations in the US healthcare industry must adhere to strict guidelines on how information should be archived under the Health Information Portability and Accountability Act (HIPPA).

If a company does not remain compliant with the guidelines for its industry, it could result in a loss of revenue, damage to its brand, millions of dollars in fines, non-monetary penalties, and even jail time for individual offenders. Clearly, compliance is the most important aspect of an email archiving solution.

Companies looking to set up and maintain an email archive should first consult with their legal team. Legal compliance experts understand how to put safeguards in place based on the specifics of these complicated regulations and are therefore the most important resource when it comes to setting up and maintaining an email archive.

Invest in a Suitable Solution

The number of emails generated in a day can vary from business to business, and it's important for a company to use an archive that is suited to its needs. For example, a company might start out with a few terabytes of data storage, only to find out that it needs even more space after just a couple of years.

Companies looking for an email archiving solution need to consider not only their current needs but also their future needs. The last thing a company should be doing is scrambling for space as their archive gets close to full.

Establish an Archiving Committee

Because an email archive is relevant to everybody in a business, the archive should meet all of their needs. An archiving committee that represents a diverse array of stakeholders can help ensure effectiveness and ease of use. Members of an archiving committee should include people from every type of department and at every level of an organization.

Establish a High-Water Mark Retention Period

An email archive needs to meet different regulations and address different needs. Because of this, timeframes for retention can vary significantly from rule to rule and function to function.

An effective way to simplify an email archiving strategy is to establish a high-water mark retention period. This is a "one period to rule them all" timeframe that meets all essential functions. For example, if a legal situation requires storing emails for nine years and an SEC rule calls for six years of storage, the high-water mark retention period should be nine years.

Leverage Automation

A high-water mark retention period can simplify one aspect of an email archiving system. However, different departments within a company often have different retention needs. For instance, emails sent by the finance department fall under different regulations than emails sent for customer support.

Fortunately, many email archiving solutions have automated features designed to simplify this situation. Most solutions offer a function called 'real-time fetching' that collects all inbound and outbound emails in real-time and remands them to a safe, tamper-proof database. This automation avoids the time, effort, and stress associated with manually archiving emails. Some email archiving solutions offer an automated legal hold process that simplifies scheduled searches and access to files during e-discovery or imminent litigation.

Automated expunging of emails that no longer need archiving is also a desirable feature in email archiving software. For instance, the software could expunge HR emails after a retention period of seven years, exempting any emails that may pertain to litigation or compliance.

Make Archiving Easy for Employees

Leaders should make email archiving as simple as possible for workers. If employees are forced to recall pages of policy and procedures, they'll be less likely to follow the necessary protocols. Furthermore, unnecessary complexity leads to the wasting of valuable time.

In addition to making procedures easy to follow, leaders should also make sure employees are always kept in the loop regarding any changes. Employees are notoriously resistant to change, so explaining the reasoning behind any modifications can help them to stay engaged with this critical business function.

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Email Archiving CONTINUED

Regularly Review Changes and Make Updates

Laws and regulations regarding record retention often shift over the years. Companies that don't keep up with the changes run the risk of getting an unpleasant surprise. The archive and legal teams should regularly review changes and make relevant updates. HR personnel and the archive team should also follow all regulatory agencies that could suddenly issue new rules related to archiving.

By implementing the above steps and then keeping on top of regulations as they evolve, businesses give themselves the best possible chance of ensuring and maintaining compliance. After all, partial compliance is the same as noncompliance, so it pays to be as scrupulous as possible with your approach to email archiving.

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At MirrorWeb, we offer a comprehensive email solution that fits seamlessly with industry-standard email platforms. If you'd like to learn more, please visit our website to schedule a consultation.

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