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Strategies For An Uncertain World

By Tracey Longo

Opportunities aplenty, for advisors ready for a bumpy ride into the future.

More than 1,200 investment advisors and other professionals from around the country converged on an unseasonably warm Chicago in early November to attend the 8th Annual Financial Advisor Symposium, a four-day event designed to show advisors how to move their firms to the next level success. The conference featured presentations by more than 120 speakers including consultant and author Nick Murray, consultant and wealth expert Russ Alan Prince, trainer and author Mitch Anthony and energy analyst Charles Maxwell.

As the opening keynote speaker, Maxwell, an analyst at Weeden & Co., outlined changes in the oil business that he expects to unfold over the next decade. He predicted that non-OPEC oil production would peak in about 2010.

Although the price of oil could fall to $50 a barrel in the first half of 2006, it is likely to start rising at 7% to 10% a year shortly thereafter, he continued. “At first, that doesn’t bother you, but after 10 years it will,” Maxwell warned. “Global competition for oil reserves will [intensify]. Look at China. It will get a lot worse.”

As supplies dwindle, Maxwell said, investors are likely to divide oil producers into two groups: Those with ample reserves could warrant significantly higher price-to-earnings multiples than others, like Exxon Mobil and Chevron, which are experiencing falling production and will be forced to focus on low-margin refining and marketing activities in the next decade. Despite their record profits, “Exxon is in trouble now,” Maxwell said.

A special event at the conference was when Richard H. Thaler, Ph.D., a leader in behavioral economics and finance, was presented with the Skip Viragh Award. The award is given annually to a company or individual who offers a new and innovative service, benefit or product that positively impacts the financial advisor community and its clients. Thaler was the second recipient of the award, sponsored by Rydex Investments, Financial Advisor magazine and others, including Nasdaq and Standard & Poor’s. The award honors Rydex Investments founder Skip Viragh, who lost a long battle with cancer in 2003.

“[Thaler’s] accomplishments in behavioral economics and finance have positively impacted and contributed to the industry, and truly exemplify the spirit of the award,” said Tom Lydon, chairman of the award selection committee and president of Global Trend Investments.

Thaler is a partner in Fuller & Thaler, an investment management firm with more than $3 billion in assets, and is a research associate at the National Bureau of Economic Research. He has written numerous articles and books on behavioral finance and has taught at Cornell University and the Massachusetts Institute of Technology.

A centerpiece of the symposium was a marketing workshop that showcased some of the brightest senior advisors in the business and the extensive marketing plans they’ve developed in just the past year. “Just because we haven’t had to do it, doesn’t mean it shouldn’t be done,” said Greg Sullivan, president of Sullivan, Bruyette, Speros & Blayney, a northern Virginia-based firm that manages a whopping $1.4 billion for 800 clients.

“Today we run $10 million in revenue, and would like to add $1.5 billion in new assets under management by 2010. The moral of the story? It’s easy to double assets when you have zero,” joked Sullivan.

To sustain the firm’s growth, partners spent much of 2005 designing a careful marketing program that would encourage and reward referrals. “The world is just more competitive and we need to be more thoughtful,” Sullivan said. Besides asking for referrals, the firm is sending out thank you notes to clients who provide them. They’ve also instituted a prospect tracking system to tap into what they do right and wrong. Retirees and executives facing a stock event who have assets in the $5 million-plus range are the primary targets of the firm’s new marketing initiatives.

Ideas in the works at Sullivan’s firm include “factory tours” to show prospects how the firm does what it does; a looping slide show in the lobby, including "day-in-the-life" videos of different staff at the firm; flatscreen TVs in meeting rooms that allow planners to play "what if?" more impressively during client presentations; and updating what Sullivan said is very stale Web site.

While the firm is working aggressively to ensure that it communicates often and on an intimate level with 800 clients, it is also bringing its marketing program inside. "We believe it's just as important to make sure folks at the firm have an awesome experience," says Sullivan, who helped create a chill room at the firm's headquarters, complete with a massage chair, candles, mood lighting and an "occupied" sign. "I encourage everyone on the staff to use it," Sullivan says. "It changes their outlook and creates passion and energy."

Rick Adkins, CEO of The Arkansas Financial Group in Little Rock, which manages $125 million for 140 doctors and wealthy individuals, said that he gets the best bang for his firm's buck by advertising in very targeted media. These include the Arkansas Medical News and other publications clients read, such as the symphony's playbill. He reprints his ads in client packets, along with any kudos his firm has gotten in "planner" stories and lists in Worth and elsewhere. "The Yellow Pages and local newspapers just don't draw the clients we want. They're a waste of time," Adkins said.

What's important is to let clients know how well you're doing. "They want to work with successful people," said Marilyn Capelli Dimitroff, president of Capelli Financial Services, Bloomfield Hills, Mich. "We tell them about the new business we're attracting, how we're growing, when we're on TV. We make them a part of it and thank them for the success," she said.

A bond fund panel produced an interesting exchange of views between Loomis Sayles Vice Chairman Dan Fuss and YieldQuest Advisors President Jay Chitnis. Fuss voiced fears that the U.S. federal budget deficit could rise to the $600-billion range next year, and that while the Fed might cut interest rates later in 2006 if the economy slows, the next economic cycle could produce significantly higher rates as corporations were forced to compete for debt with the U.S. government.

Chitnis argued that the forces of globalization, with 2.5 billion seeking to work in global industries, are so powerful that this deflationary steamroller would overwhelm U.S. domestic problems. Looking two to three years out, he warned, the biggest risk for bond investors could be reinvestment risk.

Making sure clients are successful, especially when it comes to preparing for retirement, was another resounding theme at the symposium.

The greatest risks to retirees, said Doug Zarookian, a senior vice president at Fidelity Investments, is longevity, inflation, poor asset allocation, unsustainable withdrawal rates and the wildcard of health care expenses. "Clearly for many people, retirement will be as long as their working years were," Zarookian said.

A healthy 65-year-old has a 44% chance of living to age 90 and a 23% chance of living to age 95, so advisors have to plan on retirees outliving the odds. At the same time, Zarookian said, even a benign 3% inflation rate will double expenses in a retiree's lifetime. One solution? Annuities, which advisors can use to finance a client's core monthly costs, thereby freeing up more of the portfolio for needed equities investing.

Another glaringly hot topic that some advisors are ignoring as Boomers move into retirement? The explosion in charitable giving, which constituted a $248-billion market last year, as opposed to the $150 billion in IRA rollovers and the $170 billion in U.S. oil imports, said David Brosnan, a vice president and planned giving consultant with Fidelity.

While advisors gear up to accommodate the retirement income management and charitable giving needs Boomers will have, there's still the Securities and Exchange Commission to worry about. Advisors' focus should be on avoiding surprises wherever possible, said veteran compliance attorney and former Securities and Exchange Commission staffer Stephanie Monaco. She warned against filling out forms using boilerplate language that may not suit your firm. "Be careful of the blanket process of adopting boxed compliance. Once you adopt it, you'll have to live with it," added Monaco, who had a client get "dinged" during an SEC audit for not testing their continuity plan.

While that might seem hard to do, "everything is procedural with the SEC," said former SEC staffer Brian Hamburger, a managing director of Market Counsel LLC in Teaneck, N.J. "That means they want to see how often you send compliance reports, how they're prepared, how you handle restrictions imposed by clients and how you do testing and sampling to ensure the restrictions are honored."

Another hot button? Your policy regarding gifts and entertainment, whether you're on the receiving or giving end. The time has come to set definitive limits on gifts and entertainment costs and then ensure that everyone at your firm lives within those limits. "I have three to four possible enforcement actions in this area," said Monaco, a partner with the Washington, D.C.-based law firm of Mayer, Brown, Rowe & Maw.

Not surprisingly, the panel discussions focusing on real estate investing attracted large crowds at the symposium. The question on most advisors' minds: Where and when is the bubble likely to bust? While experts admitted they are avoiding some types of developments, particularly condos in overheated markets like southern Florida and Las Vegas, they remained optimistic that the expanding U.S. population will continue to drive profitable development, leasing and management. The key is investment in the right properties in the right location, said Martin A. Stever, a principal with Pacific West Land LLC, a private real estate investment trust in Bainbridge Island, Wash. The company currently has 20 properties in various stages of development with a conservative valuation of $200 million. With targeted investor returns of 13%, “what we like to do is master residential communities with anchor shopping centers,” said Stever.

On the international front, the red hot real estate market, fueled greatly by credit, has already peaked in countries such as Australia and New Zealand, said Charles de Vaulx, who manages the First Eagle Family of Funds. “That said, in our global funds, we keep about 24% in U.S. stocks (he likes Costco and Microsoft), but we still feel strongly today that the U.S. is much more expensive than overseas,” de Vaulx added.

Lynnette Schroeder, manager of Driehaus Capital Management’s international and international discovery funds, said she is bullish on Japan’s accelerating top line growth, especially as it is playing out for good retailers and office building developers. De Vaulx, however, told advisors that he believes China is heading for a slowdown that is likely, along with any downturn in the U.S., to hurt Japan and Korea, which depend on the superpowers to fuel their exports.

Morningstar’s Don Phillips conducted his All-Star panel, traditionally one of the conference’s most popular general sessions, with Ron Muhlenkamp of fund concern Muhlenkamp & Co.; George Grieg, William Blair & Co.’s international growth guru; and John Calamos of Calamos Investments. Muhlenkamp told attendees he recently screened thousands of companies to see if they met three criteria—revenue growth above 10%, returns on equity (ROE) above 14% and price-to-earnings multiple below their ROEs. He was surprised to find that many if not most of the names were in the Standard & Poor’s 500 Index. “We don’t predict the future, but we’ve made a career of buying companies that are putting up numbers that the market doesn’t believe,” he said.

Author and consultant Nick Murray served as the event’s closing keynote speaker, and he urged attendees to create a “new” and “less stressful career” in which they can do “infinitely more good for the client.” Part of this, he warned advisors, involved not succumbing to the temptation to overemphasize investment performance.

Advisors who do this create a situation where “your career is dependent on three variables over which you have no control: timing, selection and relative performance,” he maintained. “It’s a marathon run on a gerbil wheel.”

Murray noted that beginning on January 1, “every ten seconds a baby boomer will turn 60 [years old].” The implications, he continued, are “career-making.”

About 20% of the U.S. population holds 33% to 40% of all U.S. household net worth, and another huge chunk, perhaps 40% of the rest, will pass through their hands in intergenerational transfer. “Give them the advice they need, not the advice they want, since that will destroy them,” he declared. “This generation has been preprogrammed through earliest life for financial ruin.”

Successful advice is more dependent on modifying behavior than on investment outcomes. “If people could perceive reality, they wouldn’t need us,” he said. “At 60, [clients] want an advisor who can help them negotiate a truce will reality.”

The symposium finished up after running from November 1-4 at the Chicago Hilton & Towers. The show is sponsored annually by Financial Advisor magazine and Intershow Productions. The 2nd Annual Financial Advisor Retirement Planning Symposium is planned from April 27-29 at the Mandalay Bay Resort & Casino in Las Vegas.