Thoughts for Investors

Audi Partem Alteram

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You and Your Financial Advisor

How to maximize your relationship

How does an investor maximize the value of working with an advisor? Some believe that investment performance is the singular criteria for measuring the success of a relationship and thus, will focus on an advisor's past performance. Though as the disclaimer on most investments states, "Past performance is no guarantee of future results." Of course performance is very important. Yet part of the performance can be traced to the actions of the investors themselves (as I have written in past Thoughts for Investors). Attitude, patience, worrying, saving, and spending are all factors that affect investment performance and are the purview of the investor as well as, if not more so, than the advisor. So if the relationship between investor and advisor is really the paramount determinant of success then how do you get the most out of your relationship? In this issue of Thoughts for Investors I outline some important points my team and I have endeavored to include in our relationship with our clients. Just as important, I include discussion of the role you, the client plays in increasing your chance for financial success.

1. There is no free lunch. Really. Be honest with yourself as well as with the advisor. How much you save and spend is as much a part of successful investing as the investments themselves. If your portfolio is worth $1 million, and you wish to spend $100,000/year (implying the need for a 10% return), and you crave safety, then you must either save, reduce your spending goal, invest for appreciation, or all the above. You cannot invest it all in US Treasuries (which, as of this writing, only yield about 4.5%). I often see overspending as a major cause of a failed investment plan more so than the stock market. Be careful shifting the responsibility for success solely on the advisor by asking, "What can/will you and your company do for me." This does not absolve you of your responsibility to focus on your saving/spending role. Furthermore, that question may lead an advisor to make undeliverable promises and you may only discover the risk taken after it is too late. Following the brutality of the recent bear market, advisors and investments promising to "crashproof" one's portfolio seem to be everywhere.

"Nothing can be produced out of nothing."

— **Diogenes**

2. An advisor should be guided by an Investment Philosophy and it should be similar to your own (which means you had better have one). In a nutshell, an Investment Philosophy is a system of thought, a discipline, a set of ideas or beliefs regarding investing. Your advisor must also have an Investment Process,

which is a series of actions, changes, or functions that brings about investment results. An advisor must be able to articulate both his Philosophy and Process to you. Being “on the same page” will help instill the patience necessary for success.

“We are what we repeatedly do. Excellence then, is not an act, but a habit.”

— Aristotle

3. Accept that creating, adopting, building, monitoring, and changing a financial plan involves thinking about the future not just the past. We are increasingly living in a globally connected world. “Noncorrelation” of investments is a thing of the past, if it ever existed at all. Even true diversification, while still important, is more difficult when all aspects of business become globally intertwined. Beware an advisor who presents chart and graph-filled presentations touting statistics on what worked in the past. What worked in the past for someone else may not work in the future for you.

“Young men’s minds are always changeable, but when an old man is concerned in a matter, he looks both before and after.”

— Homer

4. You get what you pay for. Do I really need to explain this? If investors had the patience of Job, could stay invested despite market volatility, and had the time and experience to dedicate to the task of managing their portfolios, then low cost index portfolios would be an option for more investors. Unfortunately many investors don’t have all these qualities. Even worse, their emotion cycles between euphoric when they tend to “buy high” or pessimistic when they tend to “sell low”, negating any cost savings of index portfolios. This makes the guidance of an advisor potentially invaluable, assuming the advisor can control his emotion, can capitalize on the emotion of others, and you give him the leeway to do so.

“Remember that there is nothing stable in human affairs; therefore avoid undue elation in prosperity, or undue depression in adversity.”

— Socrates

5. Our forefathers were onto something when they separated the three branches of government so as to provide a system of checks and balances. You might consider the separation of legal, accounting, and financial roles for the same reason. Some advisors and advisory firms bundle all three functions together claiming convenience or cost savings. Is the quality of advice from one firm equal in all three functions? What checks and balances do they have on each other?

“Everything that deceives may be said to enchant.”

— Plato

6. “Age” or “experience”? Instead think “energy” and “skill.” An advisor should be a “student” of his profession. He should be continually eager to learn about the market, investing, and people. If you don’t have an advisor with a blend of energy plus skill, start looking.

“Better be wise by the misfortune of others than by your own.”

— Aesop

7. Communication is critical. Does the advisor spend more time listening to your needs or “selling” you on the greatness of his firm or their products? Communication builds patience which, in my opinion, is an investor’s greatest asset. Don’t confuse activity with communication. Reports are not communication.

“Wise men talk because they have something to say; fools, because they have to say something.”

— Plato

8. An advisor should have a team whose members specialize in different functions. Each team member should be introduced to you and you should sense they are passionate about their role.

9. The number of clients an advisor works with is important and will affect his ability to communicate effectively. There is no correct number, though based on the complexity of your financial situation you will be able to tell whether you are important to them.

10. Referrals are an underappreciated source of information. CALL THEM! Sure the referrals will be hand-picked, yet they will be surprisingly candid. This is preferable for getting an idea of an advisor's "performance", what he may be able to do for you going forward, than presentations about his intentions. Your agenda when speaking with the referral can simply be to ask questions about the above mentioned points, especially the level of communication they receive during periods of market volatility.

"Advice is judged by results, not by intentions."

— Cicero

In summary, I believe the relationship between my team and our clients is a key determinant in achieving financial success and trust is the cornerstone of that relationship. Unfortunately, a trusting relationship can only be built over time. You cannot interview an advisor for the purpose of deciding whether you can trust them. Trust is a two-way street. Both the advisor and the client have roles. That is why it is critical that there be as much communication as possible. Communication builds trust. Times change, goals change, spending and saving levels change, and the markets change. You and an advisor will change and, inevitably, some mistakes will be made as all these changes are factored into your investment plan. Give yourself the best chance for success by making sure the points discussed above are part of your advisor relationship.

Thoughts for Investors is a quarterly newsletter written for clients since 1997 by Albert C. Boris, III. The purpose is two-fold. First, to help explain the investment philosophy that guides the author's approach to portfolio management. Second, to remind readers of important behavioral skills that the author believes are necessary to help them become successful investors. The author welcomes comments and criticisms, especially if they can be shared for the betterment of all investors. Audi Partem Alteram refers to our team's motto which translates to, "hear the other side."

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