

FACTORS IN FOCUS

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Becoming Servo



by Eric D. Nelson, CFA

I could point to the first time I read *The Intelligent Asset Allocator*, or came across Jeff Trouter's *Asset Class* newsletter, or achieving the Chartered Financial Analyst (CFA) designation as the turning point in my career. To some extent, they were. But my three years in California with Equius Partners was where I put it all together.

Swimming Downstream

At Equius, I had the chance to work with experienced and like-minded advisors who were some of the earliest adopters of my investment philosophy. They reinforced and shared this approach with clients and prospective clients with as much zeal as I did. I was able to see first hand how you can run a successful advisory firm based on this philosophy and the ongoing guidance it requires. This was something I had never before experienced considering my time swimming upstream and trying to convince previous firms of my process and its merits. I like to think that I contributed to Equius as much as I took away, but that probably wasn't the case.

When family responsibilities beckoned, however, and the gravitational pull of Oklahoma City proved too much to resist, my time at Equius came to an end. I parted ways with my friends in Northern California and moved back to Oklahoma City in early 2012, bringing with me a small number of incredibly loyal clients who had followed me every step of the way.

Starting Servo

It's been almost seven years since starting Servo, a name I chose because in Latin it means "to watch over, to protect, to preserve." In that time Servo has grown rapidly. The assets Servo "watches over and protects" (i.e. "manages") have approximately quadrupled from about \$20M in 2012 to over \$80M at the height of the market earlier this year. I list these numbers only for context; I don't measure success the way I was graded during my stockbroker days.

Servo is an unabashed fiduciary. There are no more commissions; the only revenue Servo earns is from the advisory fees clients pay for ongoing investment management and financial advice.

Instead, I think about these assets, true to Servo's meaning, in terms of the clients I have and continue to help—up to about 45 from just 15 when Servo began. These 45 are individuals and families I have spent time learning about and creating asset class-oriented investment plans and portfolios for based on their most important long-term goals. I see many face-to-face but quite a few live in other parts of the country. This approach has proven to be geographically without boundaries and sadly absent in other parts of the country.

I take a lot of pride in my belief that Servo clients are better positioned to achieve their goals in spite of the challenges—both personal and market-related—that will inevitably arise in the future. As I write this over the Thanksgiving weekend I also think about the free time Servo clients have to spend on more important aspects of life, without having to worry as much about their finances and the day-to-day management minutia anymore. It's hard to put a price on that but I hear from clients that it's invaluable.

What I am most proud of since starting Servo is that I have yet to lose a single client who has joined the firm.* Not only that, I cannot think of a single investment policy that has been altered in a meaningful way for a reason other than a significant change in objectives (such as adding more bonds after retirement). Very few if any advisory firms can make the same claims. I believe this is a testament not only to the timelessness of asset class investing but also to Servo clients and their investment in time and attention to understanding the philosophy and how it's tailored to their individual goals. Servo clients have been a patient bunch, too. The market environment since 2012 hasn't been exceedingly challenging by

historical standards, but the years since 2014 have seen some of the most dramatic underperformance for small cap, value and international stocks (compared to the S&P 500) in modern times. Yet, I remain committed to the long-term efficacy of asset class investing and regularly urge clients to as well.

Table: Annualized Asset Class Returns Since Servo Inception

Asset Class Fund	2012 to 2013	2014 to 10/2018
DFA US Large Co. (S&P 500)	23.8%	10.4%
DFA US Large Value	30.9%	8.1%
DFA US Small Value	31.7%	5.0%
DFA Int'l Large Value	19.8%	1.1%
DFA Int'l Small Value	27.2%	2.9%
All-Stock Asset Class Mix	25.9%	5.0%

Scaling Servo

Fortunately, the days of worrying about whether Servo will survive are in the rearview mirror. Fifty percent of small businesses fail within the first five years, but Servo has cleared that obstacle. This affords me the luxury of thinking about what the future holds for Servo and clients.

Along with Servo, there are tens of thousands of Registered Investment Advisory (RIA) firms, and hundreds of thousands more brokers. Despite this, I believe Servo has a unique philosophy as well as an efficient and easily understood approach:

- **Start with discovery:** determine and focus on your *primary* lifetime goals—financial independence, an ongoing income in retirement that you don't outlive, and creating and preserving a financial legacy during and after retirement.
- **Smarter investing:** don't waste your time and wealth trying to pick stocks or time the market. Invest in an appropriate mix of stocks and short-term bonds based on your return requirements and risk tolerance, diversify globally, and include smaller and more value-oriented stock asset classes for better portfolio balance and higher expected returns. Use the "passively managed" strategies that target each asset class with the best combination of style purity, diversification, low costs and (in taxable accounts) tax efficiency.

- **Stay-the-course:** stick to your investment plan, rebalance periodically, and only make changes when your long-term goals have changed, not based on short-term market movements or the latest investment product marketing pitches. This sounds simple but in my experience it's the most difficult aspect of investing and the one most people—even the smartest and most experienced—struggle with. Once the portfolio has been set up, reinforcing disciplined behavior is the most important responsibility of a financial advisor.

What are the upper limits to a firm that spreads this message to thousands of investors? How much more wealth could be created from a better investment approach that is ideally suited for one's goals, implemented according to state-of-the-art academic research and not Wall Street marketing or a focus on "fees are all that matter," and one that is adhered to more consistently? How much additional time could be redirected towards our most productive and rewarding pursuits in life if we aren't worrying so much about our money? I want Servo to grow so that I can find the answers. I want to look back on my career and feel I accomplished something meaningful, helped thousands of people live better and more fulfilling lives free from financial stresses, while making this advice accessible to more investors, not just those who have the millions of dollars that many of our current clients do.

I also want to continue to enhance and refine the experience for existing clients. What can I do to make your relationship with Servo genuinely more satisfying and productive? What am I doing that you would prefer I not do? I ask these questions in hopes of continuing to serve you better, as you wish to be served, and to improve the experience for future clients.

Much like the prospects for clients and their investment plans, I am optimistic for the future of Servo. Above all, I sincerely appreciate you trusting me with your goals, dreams and hard-earned wealth.

**Sadly, a few clients have passed away*

All-Stock Asset Class Mix = 21% DFA US Large Company Fund (DFUSX), 21% DFA US Large Value Fund (DFLVX), 28% DFA US Small Value Fund (DFSVX), 18% DFA Int'l Value Fund, (DFIVX) 12% DFA Int'l Small Value Fund (DISVX) rebalanced annually and net of 0.25% quarterly advisory fee.

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