Two decades ago, this month, I walked into the PaineWebber (now UBS) office in Syracuse, New York, for my first day of work as a stockbroker. I have been a financial advisor ever since. Knowing that, you might conclude that I have sufficient experience to be knowledgeable and helpful in managing your money. But I don’t mention my 20-year anniversary for that reason. I believe you would benefit from knowing more about my experiences, what I have learned, and how these lessons shape Servo Wealth Management, our philosophy, the investment portfolio you hold, and even our conversations.

The Dark Days

My early years were not my proudest professional moments, but they were necessary. At PaineWebber, I was selling stocks to the firm’s customers, or anyone willing to join with money to invest. Every time someone bought or sold, I earned a commission and those revenues were how I was paid and measured. Internally, we were called “producers.” That should tell you something. Brokers who didn’t meet their monthly quotas weren’t around long. Not much was said about how the stocks performed or how the customers did. At the time the market was soaring and I had an entire team of research analysts and CFAs behind me doing the evaluations and stock rankings. All that mattered was that I reached my monthly commission thresholds. The stocks did not do particularly well, in case you were wondering. When the tech market collapsed, PaineWebber’s top picks tanked too, and some, including MSCI Worldcom, went bankrupt. I made money. The firm made money. The clients? Not so much.

By the early 2000s, I had left PaineWebber and transitioned to a large East Coast regional bank. I didn’t sell stocks; the suite of products that were approved for us to sell included mutual funds and fixed/variable annuities. But I was still “producing,” the commissions were still there, as were the disappointing results. By this point, I began to do my own research, to evaluate the mutual funds and annuity sub-accounts, to sift through their portfolio objectives and past returns. Confusingly, however, I found out that none of that mattered. A fund manager who had done well didn’t seem to have any greater likelihood of continuing that outperformance than the rest of the funds I had rejected; in many cases, the outperformance turned into significant underperformance.

The Awakening

I almost gave up on financial advising after four years—I was doing OK financially, but the clients weren’t making much money, I didn’t feel like I really knew what I was doing, and continuing to get paid just because I could sell effectively didn’t sit well with me. I didn’t enjoy what I was doing. Fortunately, just before I quit, I decided that I would give this career one more shot. I would try to teach myself a better way to invest. I discovered a book, The Intelligent Asset Allocator. The author was a neurologist turned investment advisor who had been on a similar path of self-discovery in the early 1990s when he became disillusioned with how brokers like me were managing his money. It changed everything.

The Price Is Right

I learned that it wasn’t just me who was having a difficult time picking stocks or active mutual fund managers who could outperform; it was next to impossible for anyone! Financial academics had for decades been studying the markets and concluded that they were mostly “efficient”—prices reflected the aggregate information we all had. This meant that efforts to select individual securities that would outperform, or trying to predict the best times to be in and out of the market, were all pointless. There was no way to reliably determine when stocks and bonds were mispriced, or when they would go up or down in the short term. I discovered that a portfolio’s “allocation” across different types of securities (“asset classes”) was paramount. Everything else was mostly noise.
Asset Classes Are What Matter

I also found out that there were significant differences between various types of asset classes. Stocks had very different returns than bonds (#1), of course. Distinct stock and bond categories also differed—financial academics had identified a portfolio’s orientation towards smaller versus larger stocks (#2) as well as lower-priced “value” versus higher-priced “growth” stocks (#3) as additional return factors.

If the idea of market efficiency was a compass that helped to point me in the right direction, this model of investing, published by professors Eugene Fama and Ken French, and known as the Fama/French “Three-Factor Model,” could be my roadmap. With a better understanding of the markets and a sensible way to invest that was based on highly regarded academic research as opposed to Wall Street marketing hype, I finally had something to offer.

Advising Instead of Selling

The book contained another pearl of wisdom for me, buried in the final chapter titled “Investment Resources.” It mentioned a newsletter called Asset Class that could be found online and that had been published monthly since the early 1990s by TAM Asset Management.

TAM was an independent, Registered Investment Advisory firm (RIA) in Northern California. I was blown away by the fact that TAM’s owner, Jeff Troutner, had been running a firm for years based on the ideas I had just learned. I read every single issue, several times. I not only learned more about this investment approach, but I also discovered that Jeff operated very differently than how I was trained. He was part educator, part advisor, and part counselor to his clients. His newsletter was a resource to inform clients and prospective clients about core investment principles that were ignored by Wall Street brokerage firms, banks and the mainstream financial media. He managed portfolios using the asset allocation concepts articulated by financial academics and put forth in The Intelligent Asset Allocator. He maintained close contact with his clients, reviewing their portfolios and their progress relative to their long-term goals. He didn’t charge commissions—his clients paid an annual advisory fee for his ongoing advice and investment management. He wasn’t a producer; he was a fiduciary and acted in his clients’ best interests. I was sweating monthly sales quotas and he was preaching a message of knowledge, confidence, and discipline. The differences couldn’t be starker. I had my epiphany. I stumbled upon another career, one that just happened to be in the same field as my financial sales jobs.

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