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Title: Why Choose A Professional Money Manager?
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Date: May 1, 2015

The Lane Report: May 2015

Volatility has once again returned to the financial markets and with it a renewed sense of fear and foreboding. It's during these difficult market environments that investors come to recognize the benefit of having a relationship with a living, breathing investment advisor who can calm their fears while encouraging them to take advantage of opportunities that they may not otherwise be aware of. In addition to helping clients determine an appropriate allocation for their financial assets, professional advisors' ongoing focus on managing portfolio risk is often overlooked. Risk management on the individual security level as well as through portfolio diversification and strategic asset allocation (managing the mix of stocks, bonds, cash, etc.), over time produces superior risk-adjusted returns. That having been said, how do you determine whether or not you are a good candidate to have your financial assets professionally managed? And, just what exactly does a professional money manager or registered investment advisor really bring to the table?

If your combined family portfolio has marketable securities in excess of $500,000 and you either do not enjoy, or simply aren't very good at, making your own specific investment decisions, you are an ideal candidate for professional asset management. Registered investment advisors, such as Marc J. Lane Investment Management, Inc., typically offer asset management services to both institutions and wealthier individuals for a fee which is calculated as a percentage of assets managed. These professional asset managers add one overwhelmingly critical factor to the decision making process—"discipline," both in terms of managing your overall asset allocation (mix of stocks, bonds and cash), as well as your specific individual securities.

For some investors with assets of less than $500,000, mutual funds may present a reasonable alternative. For an annual expense ratio and typically a front or back-end sales charge (load), you can achieve an adequate level of diversification in both stocks and bonds. However, once you are above the $500,000 level, your holdings are large enough to warrant hiring a professional asset manager.

Unlike mutual funds, professional money managers like Marc J. Lane Investment Management, Inc. will custom-tailor a portfolio of individual stock and bond holdings to suit your particular investment needs and risk profile, including specific tax considerations, not the generalized needs of a wide range of investors. Marc J. Lane can also incorporate positive screening techniques into the decision making process that proactively address "principle focused" investors' core values and beliefs without sacrificing diversification or performance. Typical screens include a combination of environmental, social justice and corporate governance considerations. We essentially build you your own mutual fund, and act as your personal financial advisor as well. While you might expect to pay a much higher percentage fee for this type of service, the reality is that the percentage fee is often times lower. For example a $1,000,000 professionally managed account would typically incur a 1% annual charge, whereas, the average stock mutual fund has expense ratios in the neighborhood of 1.25%, often in addition to a front or back-end sales charge. In addition, mutual funds often make year-end capital gain distributions that are taxable to each participant regardless of whether or not any profit was made on the original investment. Also, professional managers can work closely with your attorney and accountant to help you achieve your financial goals. When this higher level of service associated with a managed account is considered, the fee is quite modest.

While the level of service given and the cost at which it is provided are crucial factors in deciding whether or not to utilize a professional advisor, perhaps of even greater benefit is the professional's ability to direct you toward and help you maintain, an "appropriate" long-term asset allocation strategy which incorporates your individual tax planning needs. Academic studies have historically shown that when using a fully diversified portfolio, the vast majority of your total return is a function of how your assets are allocated. In other words, if your portfolio is either overweighted or underweighted in stocks over a long period of time, it could cost you much more in terms of total return than any other single factor.

If your individual circumstances, such as time horizon, risk tolerance, expected return, liquidity needs and income requirements, indicate an appropriate allocation of 60%-70% in stock holdings; but over the last 10 years you only allotted 40% to that asset class, your total return for the period would have been dramatically lower. Furthermore, by strictly adhering to an appropriate long-term asset allocation strategy, your portfolio will by definition be buying low and selling high.

For example, let's assume that your "target" allocation across all of your portfolios is 60%-70% in stocks, and you currently hold a 65% position. If, over a period of time (3 months, 6 months, a year, whatever is agreed upon), stocks decline relative to bond holdings for the period bringing their weight in the combined portfolio down below the target minimum of 60% to only 55%, a strategic asset allocation strategy would prompt your advisor to reallocate your portfolio purchasing additional stock from cash holdings or selling bond holdings to fund stock purchases, bringing your weighting in stocks back up to within the agreed upon target range in your total portfolio, thus effectively "buying low." The opposite would be true of a strong stock market where equity positions would be sold bringing the allocation to stock holdings back down within the target range. By doing this consistently over time, you are able to maximize your portfolio return while effectively managing your risk.

Having the discipline to adhere to a well thought-out, tax-efficient asset allocation strategy over long periods of time is probably the single most important aspect of a successful investment plan. Utilizing the services of a professional money manager like Marc J. Lane Investment Management, Inc. removes emotional factors such as fear and greed from the strategic decision-making process, imposing discipline on that process. Many individual investors tend to focus solely on total return without considering the degree of risk imbedded in their portfolios. An advisor's management of the exposure to risk inherent in any one asset class (stocks, bonds, etc.), by actively targeting the degree of exposure to each specific industry sector and individual security, also benefits from the adherence to a more disciplined approach to decision-making.

So, in answer to the question, just what exactly does a professional money manager really bring to the table? I would offer the following. First and foremost, professional advisors bring "disciplined rational decision-making" to what is often times an emotional process. They also bring a level of customer service not available outside the world of professional asset management. And lastly, professional managers like Marc J. Lane Investment Management, Inc. can provide all these benefits at or below the cost that most mutual funds charge. All things considered, I believe the case for professional money management is a strong one. Please contact us at mlane@marcjlane.com to schedule an appointment or visit our website at www.advocacyinvesting.com.

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