



Putting the “Plan” back in Planning (Part II)

Introduction

Last issue, we met with Maureen Verduyn and Peggy Lombardo, co-founders of The Financial Team, a financial advisory team based in Carlsbad, CA, just north of San Diego. The topic we discussed was the importance of being able to respond effectively to the inevitable vacillations of the economy and financial markets.

We talked about the critical and often-misunderstood roles of proactive financial planning and flexible financial strategy in helping investor portfolios adapt to changing markets. The Financial Team recently introduced Adaptive ECONomics, a multi-component process designed to proactively anticipate and react to economic and financial challenges.

Here’s the second part of our interview:

The Interview

Mitchell: When you last spoke, you were talking about the importance of having a proactive planning and investment strategy that can adjust to change. Can you give me an example of the kind of change you refer to?

Financial Team: We believe one potential change in the near term is the reemergence of inflation, based on the government spending policies being enacted. With the goal of being proactive for our clients, we’ve spent the better part of the past year conducting due diligence on a new platform that enhances our ability to help protect client portfolios against a possible inflationary surge. We’re tapping the expertise of a respected institutional manager to help make the transition seamless.

Mitchell: Is institutional management of client portfolios a better fit for your fee-only approach?

Financial Team: We choose to forego most transaction-based investment strategies. We understand those tactics are commonly employed by some in the industry, but as a fee-only boutique, we believe that type of investment management could be detrimental to our clients should something happen to us. We elected instead to have institutional managers with established track records manage our client portfolios. That helps us create individual portfolios that reflect the appropriate risk and investment objectives of each client, with the implementation handled by institutional managers we have subjected to vigorous research.

Mitchell: What considerations went into your choice of the new platform you mentioned?

Financial Team: There were many factors. We demanded superior logistics and the ability to administer client accounts with maximum accuracy, efficiency and cost containment. We support Modern Portfolio Theory as the most efficient and practical method of constructing optimal portfolios using asset allocation, often referred to as strategic investment management. That philosophy is at our core. While it may be a bit unexciting for some, we prefer to find our excitement elsewhere

Mitchell: Have you made any tactical adjustments?

Yes. We made a tactical decision based on the stellar performance of some international markets over the past twelve months. We gave those issues heavier weighting in our portfolio and have done well as a result, but we now advocate slightly reducing that allocation, seeking again to be proactive on behalf of our clients.

Another example of being proactive would be our recognition that in an environment where interest rates are particularly low, they are apt to rise, sending bond prices down. Thus, we are likely to make the short-term tactical decision not to buy long-term bonds nor employ a third-party manager who does.

Those are instances where we seek to add value for our clients by fine tuning portfolios versus rigidly adhering to a prescribed strategy. We can often see nuances that might improve performance or risk protection, subject to individual client situations, such as their other holdings. Our ultimate goal is to help our clients find rewards for taking carefully measured risk. If the potential payoff does not justify the risk, there's no reason to take it. Our strategy is not to take more risk just to get a higher return; we are willing to accept a calculated risk provided the probability of a commensurate portfolio reward.

Mitchell: The new platform helps you make these adjustments?

Financial Team: We feel our decisions about portfolio design need to be adaptive, much like our client planning decisions. The third-party platforms we used previously were not as sophisticated, not as easily customized to meet the unique needs of different clients as we would have liked. Our experience through several economic cycles and a commitment to constantly explore new technologies has opened up new opportunities for our clients.

Mitchell: Can you give me an example?

Financial Team. If a client owned a stock with a low tax basis but didn't want to sell the position, we weren't easily able to provide a place for that asset to be held; we had to direct them to set up an outside account for that purpose. Our new platform allows us to hold outside assets that are not being actively managed within a managed account. That's a convenience we were unable to offer previously. As a result, our clients don't have to gather and sort through a series of statements from different sources to see where they stand; they receive a comprehensive report from a single source containing all the information they need. It's a single point of access to all their assets.

Mitchell: I know some investors with portfolios mostly made up of investment real estate.

We have several clients with the bulk of their portfolios in investment real estate (other than primary residences), which is a natural inflation hedge. Obviously, they have adequate inflation protection and there's no need to convert paper assets for additional safety. But we also have clients with no investment real estate who should consider converting a portion of their portfolio into real estate or other inflation protection instruments

Mitchell: So the new platform helps implement your Adaptive ECONomics process so clients can plan for change, such as the potential for rising inflation?

Financial Team: The *Adaptive ECONomics* structure gives us what we believe is a superior alternative to the traditional financial plan. It allows us to review every relevant aspect of our client's financial health and future vision, and make changes as needed. The new platform offers clients greater flexibility in formulating strategy to deal with those changes, including an inflationary increase. We have over 150 clients and each has a unique set of circumstances that can be measured, analyzed and acted upon using the Adaptive ECONomics process.

Our investment philosophy has been a constant; the new platform doesn't change that. The platform helps us implement our strategy more efficiently. It's a case of improved technology providing a better alternative.

Mitchell: Thanks for sharing your thoughts with us. This has been especially timely, given what's been happening in the markets recently. I think our readers will have a clearer understanding of the importance of proactive planning and flexible investment strategy.

Michael Mitchell is an independent financial writer based in San Diego.