WEALTH MANAGEMENT

Discussing the Current Wealth Management Landscape

A Q&A with Selwyn Gerber of RVW Investing LLC

At the Los Angeles Business Journal, our ears are always to the financial ground, and there are a number of questions that we've been hearing repeatedly from readers navigating the wealth management landscape. To take a closer look at the latest concerns and trends in wealth management, we have once again turned to leading expert, Selwyn Gerber, CPA, CEO and Chief Strategist at RVW Investing LLC. He graciously weighed in for a discussion and shared some insights on the state of wealth management in 2017.

Gerber

◆ Describe the current investment environment and what you consider to be the best investment approach, in general terms?

GERBER: We adhere to core investment principles regardless of the environment, because RVW portfolio design is more science and less art than most. The research of Nobel Laureates like Prof. Eugene Fama, Prof. Jeremy Siegel and other academics informs our approach - and we implement evergreen portfolios tailored to the long-term needs of each client for growth, safety and income. The data indicate that over 80% of managers who engage in stock picking and market timing ("active management") have underperformed their benchmark indexes over any 10 years - and that over the long term stellar rewards awaited those who owned quality stocks and endured the volatility. Our typical portfolios comprise a group of broadly diversified, low cost enhanced index-based funds with an overweighting towards factors that have historically delivered higher returns. Bonds mute volatility and provide interest income. A selection of superior dividend paying equities delivers growing tax-minimized income.

◆ Given your firm's outlook and forecast for the year, what is the next piece of advice you'd offer for longer-term portfolio asset allocation?

Asset allocation for our clients is similar each year independent of what experts forecast, especially since they have such an abysmal record of being right. If one had invested $10,000 in the S&P 500 in 1997, that would have amounted to around $44,000 by 2016. However, those who missed the 10 best trading days during that time would have earned only half as much. We are long-term mega-bulls and have 100 years of history to back up our position. The key is the have the emotional fortitude and the financial diversification to be able to endure the severe bear markets that take place from time to time, with equanimity. They are simply part of normal market and economic cycles - and each bear market turned out in time to be a compressed spring that pushed the markets up to ever-greater heights. I arrived in the USA from South Africa in 1977 when the Dow was around 850 and it is now well over 20,000 excluding dividends that would have been paid out. The fact that there were a dozen major market collapses over that period is now irrelevant to those who remained invested. Each RVW Wealth Advisor is also a CPA and Personal Financial Planner. We have a ruthless focus on the bottom line and on income tax minimization, because it's not what you earn but what you keep that counts. Our portfolios are designed to be extremely tax-efficient.

◆ What can advisors do to keep news-driven distractions out of clients' heads to keep them focused on their long term plan and goals to grow wealth and prevent them from exiting out and entering into the market at the wrong time?

Each client's ship is guided by the stars and not the prevailing winds. We regard the news as noise, and generally ignore it. Media messages negatively affect investors' performance by reporting news with dramatic headlines, which tend to cause them to panic. For example, many investors exited the markets after BusinessWeek's famous "Death of Equities" issue in 1979, which was just before a multi-decade bull market, and there was a similar stampede out in 2008. Those who responded to the headlines paid dearly. We are counter-cyclical educators – in bearish markets we let our clients know that all bear markets end eventually and that history is solidly on the side of the bulls. In frothy markets we invoke the immortal words of Buffett that "trees don't grow to the sky" and that in time reversion to the mean will cast a spell of bearish reality. Suppressing one's instincts and ignoring the headlines are key attributes of the savvy equity investor.

◆ How do investors manage the complexities of the current investment market?

Investing should not be complex in any market environment. Complexities in investing are often associated with excessive fees, hidden charges and deceptive sales practices. We favor a simpler approach to investing where each client knows what they own and why, in a liquid, low cost and transparent manner. The advent of ETFs (Exchange Traded Funds) enables investors to access broad groupings of investments with common characteristics under a single umbrella at low cost. Companies that no longer meet the selection criteria of the fund are automatically dropped - and new ones are added as they begin to fit the rules of admission. We regard this approach as a rules-based Darwinian best-of-breed selection process. Combining a grouping of funds is much like creating a financial orchestra where each fund functions as an instrument, bringing a different attribute to the overall harmony of the portfolio.

◆ What keeps your clients up at night in 2017?

Financial peace of mind is our #1 promise. Being invested in a dynamic diversified group of successful enterprises selected in an objective manner and secure bonds, our clients have absolutely nothing to worry about at night, and they know it. They understand that the portfolio has been properly designed to withstand volatility, and over time to meet their expectations. In addition, our educational process ensures that our clients understand what they own and the role of each element within their portfolio. If they're not sleeping peacefully we have failed in our primary task.

◆ What should clients be asking their advisors in 2017?

The first key question is to understand if there are any conflicts of interest in the recommendation of investments. The distinction between suitability and fiduciary standards is a good starting point. Fiduciaries are obligated to place the interests of each client ahead of their own and will bring objectivity and care to the wealth management process. Most traditional stockbrokers adhere to the far less rigorous suitability standard. Understand what the total fees and charges - direct and indirect - amount to for each investment, and what incentives if any are provided to the salesman for each sale. Many classes of mutual funds charge higher fees in order to compensate the advisor more generously. Investors should understand if the portfolio is well diversified across geography, sectors, and individual stocks to avoid concentration risk - and how similarly designed portfolios have previously performed in times of market stress. Always inquire about the educational qualifications of your advisor and check public records for violations. Request periodic reporting that is clear and readily understandable and be aware of the tax costs of any gains made.

◆ What are some mistakes individuals make when working with their wealth management advisors?

Blindly trusting the advisor without understanding the investment philosophy or the process is a key mistake. Complexity is often a way to hide costs and fees - and to mislead. In addition, the investment process should ensure that there are absolutely no conflicts of interest between the advisor and the investor. "Flavor of the Month" is for ice cream not for portfolios - and we ignore the latest trends or fads in investing like hedge funds, alternatives and venture capital. Concentration risk in a specific region, sector, or stock can lead to permanent loss of capital, and diversification is the only free lunch for investors because it transforms risk into volatility. Portfolio design is not a one-size-fits-all exercise and you should expect your advisor to design an investment program responsive to your own situation, needs and risk-tolerance.

Selwyn Gerber, CPA, MBT, PFS, is a Founding Member of RVW Investing LLC. For more information, call (310) 945-4000 or visit www.RVWInvesting.com

'Blindly trusting the advisor without understanding the investment philosophy or the process is a key mistake. Complexity is often a way to hide costs and fees - and to mislead. In addition, the investment process should ensure that there are absolutely no conflicts of interest between the advisor and the investor. "Flavor of the Month" is for ice cream not for portfolios - and we ignore the latest trends or fads in investing like hedge funds, alternatives and venture capital. Concentration risk in a specific region, sector, or stock can lead to permanent loss of capital, and diversification is the only free lunch for investors because it transforms risk into volatility. Portfolio design is not a one-size-fits-all exercise and you should expect your advisor to design an investment program responsive to your own situation, needs and risk-tolerance.'
SELWYN GERBER

WEALTH MANAGEMENT

Eight Ways to Outwit an Identity Thief

THE American Bankers Association is offering tips for consumers to protect their financial identity.

"Financial fraud, including identity fraud, is a very real risk that must be taken seriously," said Frank Keating, ABA president and CEO.

Identity fraud occurs when a criminal obtains and misuses someone's personal information without permission, typically for economic gain. For many victims, it can result in drained bank accounts, poor credit and a damaged reputation.

"The best way to contend with financial fraud is to prevent it from ever happening in the first place," said Keating. "Banks use sophisticated technology and monitoring techniques, intricate firewalls and other methods of securing customer data, but there are steps consumers must take as well."

'The best way to contend with financial fraud is to prevent it from ever happening in the first place.'

This initiative is part of ABA's Get Smart About Credit Day, when volunteer bankers across the country will help individuals of all ages protect themselves from becoming a victim of identity fraud.

ABA offers the following tips:

Don't share your secrets. Don't provide your Social Security number or account information to anyone who contacts you online or over the phone. Protect your PINs and passwords and do not share them with anyone. Use a combination of letters and numbers for your passwords and change them periodically. Do not reveal sensitive or personal information on social networking sites.

Shred sensitive papers. Shred receipts, banks statements and unused credit card offers before throwing them away.

Keep an eye out for missing mail. Fraudsters look for monthly bank or credit card statements or other mail containing your financial information. Consider enrolling in online banking to reduce the likelihood of paper statements being stolen. Also, don't mail bills from your own mailbox with the flag up.

Use online banking to protect yourself. Monitor your financial accounts regularly for fraudulent transactions. Sign up for text or email alerts from your bank for certain types of transactions, such as online purchases or transactions of more than $500.

Monitor your credit report. Order a free copy of your credit report every four months from one of the three credit reporting agencies at annualcreditreport.com.

Protect your computer. Make sure the virus protection software on your computer is active and up to date. When conducting business online, make sure your browser's padlock or key icon is active. Also look for an "s" after the "http" to be sure the website is secure.

Protect your mobile device. Use the passcode lock on your smartphone and other devices. This will make it more difficult for thieves to access your information if your device is lost or stolen. Before you donate, sell or trade your mobile device, be sure to wipe it using specialized software or using the manufacturer's recommended technique. Some software allows you to wipe your device remotely if it is lost or stolen. Use caution when downloading apps, as they may contain malware and avoid opening links and attachments – especially for senders you don't know.

Report any suspected fraud to your bank immediately. The faster you let them know, the faster they can begin to resolve your program.

The American Bankers Association is the voice of the nation's $15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $11 trillion in deposits and extend more than $8 trillion in loans. Learn more at aba.com.

HOW TO KEEP YOUR MONEY FROM SLIPPING AWAY

As with virtually all financial matters, the easiest way to be successful with a cash management program is to develop a systematic and disciplined approach.

By spending a few minutes each week to maintain your cash management program, you not only have the opportunity to enhance your current financial position, but you can save yourself some money in tax preparation, time, and fees.

Any good cash management system revolves around the four As — Accounting, Analysis, Allocation, and Adjustment.

Accounting quite simply involves gathering all your relevant financial information together and keeping it close at hand for future reference. Gathering all your financial information — such as mortgage payments, credit card statements, and auto loans — and listing it systematically will give you a clear picture of your overall situation.

Analysis boils down to reviewing the situation once you have accounted for all your income and expenses. You will almost invariably find yourself with either a shortfall or a surplus. One of the key elements in analyzing your financial situation is to look for ways to reduce your expenses. This can help to free up cash that can either be invested for the long term or used to pay off fixed debt.

For example, if you were to reduce restaurant expenses or spending on non-essential personal items by $100 per month, you could use this extra money to prepay the principal on your mortgage. On a $130,000 30-year mortgage, this extra $100 per month could enable you to pay it off 10 years early and save you thousands of dollars in interest payments.

Allocation involves determining your financial commitments and priorities and distributing your income accordingly. One of the most important factors in allocation is to distinguish between your real needs and your wants. For example, you may want a new home entertainment center, but your real need may be to reduce outstanding credit card debt.

Adjustment involves reviewing your income and expenses periodically and making the changes that your situation demands. For example, as a new parent, you might be wise to shift some assets in order to start a college education fund for your child.

Using the four As is an excellent way to help you monitor your financial situation to ensure that you are on the right track to meet your long-term goals.

This material was written and prepared by Emerald.