FA MAGAZINE

December 2008 issue

Sharing Ideas

Advisors plot the future of their practices at The 11th Financial Advisor Symposium.

By Staff Report

It is a tribute to the investment advisor industry that so many advisors could travel to Chicago for the 11th Annual Financial Advisor Symposium this year during a week when the stock market plummeted to historic lows. Despite the turmoil, more than 900 attendees still managed to focus on how to position their businesses—client portfolios included—for the future.

“Our clients are calling us and asking us if we’re okay,” said veteran advisor Marilyn Capelli Dimitroff, who spoke on two panels at the four-day confab October 12-16. “There’s tremendous potential for continued growth in our industry, but there are challenges too and that’s what we’re preparing for,” added Dimitroff, who helms Capelli Financial Services in Bloomfield Hills, Mich.

Brian Wesbury, chief economist of First Trust Portfolios, opened the conference’s first general session with a remarkably upbeat assessment of the economy and the financial markets. Contending that the slowdown in business activity will be relatively brief, Wesbury argued that the massive liquidity injection provided by the Federal Reserve Board could jumpstart the economy and propel growth to a rate approaching 3% by early 2009.

In his view, the current financial crisis bears a greater resemblance to the Panic of 1907 than other situations it’s being compared to because of the similar lack of confidence in financial institutions at that time. Wesbury noted that many of the current economic woes are being exacerbated by mark to market or “mark to mayhem” accounting, which forces financial institutions to book losses on assets they can’t price, much less sell, in a panic-stricken environment.

While no one was happy with the 700-point single-day nosedives in the stock market, the undertone of the conference was clear: Investors without good financial and investment plans are flocking to advisors in droves, looking for the kind of risk management and long-term investing plan that only professional advisors can provide. “Six to seven years ago, it was hard to tell people why they needed a diversified portfolio because everyone was already making money,” said presenter Roman McDonald, founder and president of First Genesis Financial Group in Newtown Square, Pa. “Now, when everyone is taking losses and they’re close to retirement, they want and need professional advice.”

Other fundamentals are changing too, including the rules of investing, said McDonald. “We’ve had to re-evaluate the old-school mix of 40% bonds and 60% stocks. Now we work to incorporate alpha generators into our portfolios, including commodities, private equity and foreign exchange investments. We live in a global world now, and while return of principal is critical, return on principal is important, too."

A conference highlight occurred on the afternoon of October 15, when Nick Murray, editor of Nick Murray Interactive, addressed a general session minutes after the Dow Jones Industrial Average dropped more than 700 points.

He challenged the audience by asking them whether they were managing people or managing assets, pointedly adding that it was impossible to do both. Trying to estimate what the economy will do in order to figure out what the market will do, within certain parameters "is a waste of time," particularly over the last several months, Murray observed.

"Trying to figure out whether small-cap would outperform big-cap or whether Poland would outperform Peru" is also a waste of time, Murray continued. "If I had said this one year ago, you wouldn't have listened," he added.

The root of the problem for financial advisors is that they expend a great deal of energy trying to manage things they can't control. "I don't just mean the market going down," Murray declared. "Remember 1999. The issue is what's going on in clients' minds and why do we have so little control over it. I think it's because we spend so little time on it."

Murray reiterated his long-held belief that financial advisors must become "behavior modifiers," and not simply act the role of savants with knowledge of the stock market and the economy. Having witnessed eight of the 13 post-World War II bear markets as a professional, he remarked that "the more of them I see, the more they are the same." People are likely to experience them in one year out of five.

Murray summed up by implying advisors and clients alike could be susceptible to paralysis by analysis, and that leads them to miss the big picture. "Fifty-six billion in equity mutual funds wasn't withdrawn in two weeks because clients didn't understand the French-Fama Multi-Factor CAPM model," he said.

While many advisors have prided themselves on helping their clients take the focus off of short-term market swings, the market volatility of the past year has forced them to make much more frequent trades. "For the first time, we're trading daily and have rebalanced into cash, waiting for the volatility to decline," said Christopher Cordaro, the CIO of RegentAtlantic Capital LLC in Morristown, N.J., and a presenter at the symposium. "That's the first time we've ever done this, but with panic sell-offs, it didn't make sense to start buying yet."

Advisors and fund executives at the conference hoped that the 2008 presidential election and the Federal Reserve Board's liquidity plan would permanently restore long-term order and sanity to the markets. "I think the thing that was hard for advisors to communicate to investors is that the fundamentals of many stocks haven't changed, but what led the market down was a crisis of confidence," said Lee Schultheis, chief investment strategist of the AIP Mutual Funds and a presenter at the conference. "Performance was down because there was a liquidity crisis of a global magnitude that we have never seen before."

Schultheis, who runs two open-end mutual funds that invest their portfolios like a conservative hedge fund-of-funds, said the good news is that a lot of things have sold off far cheaper than they should have amid the volatility. “That creates a lot of opportunity for our managers. With damage already done to relative valuations, we think hedge fund managers will find those bargains. I’d expect them to over perform in the next five years,” Schultheis added.

Kevin Mahn, a portfolio manager for the SmartGrowth Mutual Funds, told attendees that he sees positives ahead for investors. “We’re increasingly optimistic about the outlook for U.S. and international equities. We’ve called a start to the market correction in late 2008 and think the market will start to recover before the U.S. economy does, all the more important to diversify,” he said. Mahn runs three target-risk mutual funds that all had positive performance as of the third quarter.

What’s critical, Mahn added, is to help investors stay the course of a smart investment plan. “Out of the 14 bear markets this century, it took 3.5 years to earn back the losses. I think that speaks to a pretty good recovery.”

Direxion Shares President Dan O’Neill said he likes to create products that allow advisors to make their own calls about where the markets are headed. To that end, Direxion just launched eight new leveraged Bull and Bear ETFs, which seek 300% of the daily performance (or their inverse), of four distinct Russell indexes, including the energy and financial indexes. “We think that by providing bull and bear versions of these indices, we give investors the ability to seek competitive returns in both rising and falling markets,” O’Neill said.

The final general session of the conference ended with a presentation by Charles Maxwell, a senior energy analyst at Weeden & Co. By the time global oil production peaks in 2015, its price will zoom to nearly $300 a barrel, he predicted.

While Maxwell expects an extended global recession that will keep oil prices and energy stocks cheap in 2009 and into 2010, he thinks oil will rise to $147 a barrel by 2012, and continue climbing above $200 by 2014 before hitting $300 by 2015. It should be noted that in 2001 Maxwell predicted the price of oil would top $100 a barrel within seven years.

The decade between 2015 and 2025 may be characterized by severe energy shortages. Maxwell expects both OPEC and non-OPEC oil production to decline at an increasing pace during that period. In 2006, oil accounted for 39% of the total global supply of energy. Maxwell predicted it would fall to the 38% or 37% area over the next several years. “After 2015, it will fall very fast,” he said.

The problem, he continued, is the lag time between approving a new energy project and the energy actually coming on stream. That’s why Maxwell believes supply-and-demand imbalances will squeeze prices upward.