FRIDAY, SEPTEMBER 15, 2023

Well, hello and welcome to another week of the Dividend Cafe. I am excited today to be talking about something unrelated to the Fed, unrelated to macroeconomics, the normal subjects that often find their way into the Dividend Cafe. Today I decided to go a different direction and I think it's very practical and I'm hopeful that a lot of you, both clients and non-clients alike, will get something out of it. Let me quickly tell you how we got to this subject. I am working through a study on comparisons to the current artificial intelligence moment. And the late nineties, different parallels different similarities. We are even using some particular companies to contrast the where they were in behaving in 1999 versus some, how they're behaving in 2023.

Just to kind of lay out some ideas and thoughts in a framework for how to think about this issue. And I intended to write a Dividend Cafe on that soon. It may not be next week, it may be, but I wasn't fully ready to kind of flesh that out this week. And I've been putting a lot of work into it.

And so, I debated with a couple other topics and then on, on Thursday I got a email through our inquiry portal. You know, we have the questions portal where people are able to send things in, and our communications team forwards most of these onto me. After a little bit of purging and filtering and appropriate editing, and I got a question from a non-client that I thought was really important about how one

Thinks about looking for an advisor for a financial advisory team, that what are the criteria they ought to use? How do they know if they're making the right pick? When they're engaging someone in what's such an important relationship as it pertains to the person or people or whatnot that will oversee their financial wellbeing and help implement plans and strategies and be in relationship to them.

In something that is such a significant part of somebody's life, and I have written about it in the past and I've talked about over the years, but it occurred to me that I don't think I've really touched this subject in a little while, and I have pretty strong opinions on it. And so I thought it was worthwhile for me to kind of revisit that subject about what a good set of criteria may be when one is thinking about engaging a financial advisor.

And there's absolutely no question, I'm gonna put this right out the table, up front. As you read the dividend c this week, or if you're listening to the podcast or video instead, you were about to hear some things that are absolutely aligned with the way we do things at our firm. And there is a certain bias that a person who runs an advisory firm being asked, what should I look for in advisory firm is very likely to say some things that are related to what that person does with their advisory firm.

And that's about to happen right now. However, I just would like to point out the little chicken or egg fallacy here in what might be part of an accusation that maybe just, maybe somebody does not formulate what they think the answers to the question should be as far as criteria of an advisor around what their firm does, but maybe.

They set up what their firm should do around what the answers to the question is. So I will just go on a limb and say, you can pick for yourself what you think is going on here. I am quite confident I know the answer. I'm gonna start with the most cliche of all, but it is cliche for a reason as by the way, most cliches are.

Obviously trust is the cornerstone of a relationship between an investor, a client, a person with a financial need in search of financial advice and trust has to be that cornerstone. I think the difference between the answer that I'm about to give and the cliche version of the answer is I do believe there's something a little bit unique or profound or useful in how I'm gonna define that.

If trust is something that is built when one has been trustworthy. The question becomes, what builds trustworthiness? How can I detect trustworthiness in the person I may want to work with? And I've long been convinced I'll give a lot of credit to one of my mentors, Nick Murray on this. That trust is built by telling the truth, even when the truth is not what the person wants to hear.

And I think that this is probably the biggest disqualifier of most people in the financial advisory profession who deserve to be disqualified, is their lack of capability of telling the client the truth more specifically their tendency to tell the client what they want to hear, devoid of any truth or conviction.

The convenience factor the popularity factor. The ease versus the painful difficulty Sometimes in telling people they don't want to hear, there's a sense in which it can be benign. You know, if you pretend you like a food just because someone else is, they like a food, it kind of might make you a weirdo, but probably is not a damage done if the person tells you.

I really think . The market's about to dip 20%, and I like to come into the market after that 20% dip. And you go, that's great. That's exactly what I want to do. Let's open up your account and then we'll do that. Then. I don't think that's benign. I think you're helping, you're holding someone's hand as they fall off of a cliff.

Even if you're not generating the idea, you are not trustworthy. You should not be trusted because you lack the conviction. To formulate your own thought around something, but then there are even more malignant things and obviously, I mean, I assume it doesn't have to be said like, don't . Trust people who steal money or who have a bad record of criminal offenses or, you know, that type of a deal who don't have any controls in place, don't sign over the rights for them to withdraw your money.

You know, things like that are just, I'm not even including that in this, it's so obvious to me. But I think the deeper level of trust comes from the person who seems willing to share unpopular truths, who is willing to be counter-cultural, who's willing to say ? I don't know what stock will do next week or what the market will do next month and being able to add to that, I don't know, and neither does anyone else.

I think that is a good example of where trust can be built and there are a whole lot of things that are necessary to build trust. If somebody says, I have $5 million and I need to withdraw 500,000 a year and I have 50 years to go and I need you to promise me, I'll never run outta money. You can't make that promise.

And yet there are an awful lot of people out there on the investing public that make their advisor selection based on who will tell them what they want to hear and where often the exact opposite needs to be done. And that's not only because some people want things that are untenable or ill-advised unwise, but it's also because this is a real litmus test for trust.

And trust is established by telling the truth even when it is what someone doesn't want to hear. Now I'm gonna parlay the trust point to the second point, which is competence. And a lot of people would say, well, I, I can trust those once I've seen them to be competent. I think that there is more to the trust category than just competence.

I also wanna suggest there's more to competence than just smarts. You can be a very bright young person who learns a ton about markets, but if that brightness, that competence, that intellect is not attached to an ongoing intellectual curiosity to a perpetual quest for knowledge, to a commitment to being studious.

I don't think it matters because markets themselves are highly dynamic. There are truths in the market, and I don't mean principles that change, but I mean applications that change, that get arbitraged away. This is a key market fundamental that markets are constantly pricing realities in. And so what may be a really attractive application of a principle?

It becomes unattractive over time because of pricing. And a student of markets can detect this, understand it, look at it where one who is bright, competent, but then lazy or intellectually disengaged going forward, misses that reality. I think that the competence has to be not only just a broad general acumen, someone who has a kind of intelligence and witt to be a good problem solver.

To but also particularly around financial markets, the, I don't look, there are some advisors that do not manage money themselves. Candidly, that's most okay. I'm, our firm at the Bahnsen Group is in the minority on this where the, there is. Direct portfolio management is such a substantial amount of what we're doing.

Many people outsource the portfolio management outsource the asset allocation. And many people don't even outsource it to their managers, but they go into a turnkey, passive embedded models that are how they go about creating a client portfolio. I don't believe in it. I have an argument against it, but that's not what I'm critiquing here.

I'm critiquing someone who chooses a strategy that way and has absolutely no attachment. To the underlying capital markets that are a vital ingredient in the solutions that they've created for a client, some form of passion about financial markets is necessary, in my opinion, for the right level of competence for one worthy of the advisory profession.

Now, number three is a really big disqualifier as well. Guiding principles. This is also connected to competence. When one's disengaged from markets, they're probably disengaged from principles that help them think about markets. And when one is not trustworthy, they probably do not care to formulate, let alone operate off of first principles.

But I again wanna make the point that we're not talking about everyone doing things the same way or doing things the way we do. And I'm not talking here about people believing the same things I believe, but I am talking about them believing something. One of my favorite lines about a past a critique of a pastor.

I think it was Spurgeon who said it, it may have been moody, I can't remember. But someone asked if they thought of a given pastor and they said, I believed every word he said, I'm just not sure he did. And that is to me, I think with the advisory profession, so many people that lack a conviction about what they're doing and really their guiding principle when they would say they don't have one. There is always a North Star. It's just unfortunately their North Star is popularity, is convenience is just going along with the crowd. Whatever seems to be flavor of the month, it's very common and I don't think it creates a good solution for clients.

I think that it ultimately can do a lot of damage. That there ought to be, first of all, the principle that what we're here to do is be a solutions provider. That the advice profession is not fundamentally about anything other than matching solutions to needs. Solutions to objectives and goals and that in the art and science of doing that is the wealth management experience.

But beyond that core understanding of what the profession is there are a variety of things that one needs to commit themselves to, that they believe about markets, about capital, about investing, about risk and reward, about financial planning and whatnot about certain priorities in portfolio construction.

All of these different things and so making sure that they have guiding principles is important and obviously as much as possible understanding that they stick to them and have a process in place. Number four has become a much bigger deal. I don't know that I would've focused on this many years ago, as much as I do now, I always believed in a comprehensive or holistic understanding of wealth management.

I was fortunate to have entered the business where the consultative approach that transcended product sales or stock trading was already becoming a bigger part of the business. And so I didn't grow up in the business in the seventies or eighties when I was a kid and high school student. That it was really more just to generate a trade or a transaction.

By the time I entered the business, it already was thought of as the advice profession and more consultative. But the integration of services now myself as a managing partner of a business, I am blown away at the depth and breadth of services that, that particularly more ultra high net worth and sophisticated clients need, want, and so forth.

And I think it's a very healthy development. I don't begrudge it at all. I think that it is appropriate. I certainly have expanded my own needs in, in terms of my own financial picture and managing the stewarding affairs of my family. And I think that this is a really healthy development, but it is not merely true.

For ultra high net worth, very sophisticated, large, complex situations but even some that may seem to be smaller, there's still a need to go beyond just a portfolio that has a few mutual funds in it, and maybe a printout of a sheet showing when they're gonna run outta money, doing more sophisticated.

Cashflow analysis doing more useful scenarios that one can run about buying a home, about financing, about business credit and then of course, the basics that, you know, face everyone with death and taxes, and being able to integrate real tax planning and estate planning into the wealth management process.

I don't recommend a financial advisory relationship where there cannot be integration of services. Some do it at a more deep level, some have just enough. But my point being that approach that guides a client holistically, I. With an adequate level of services, I think is a very important thing.

So trust, competence, guiding principles, depth and breadth of services. Number five, can we be so quick because it ought to be so obvious, but it's operational excellence. There ought to be, it can be a small outfit that has minimal operational resources but again, is smooth, clean, efficient. It can be a larger operation that has more operational resources, technology and whatnot. But all clients, first of all, demand, but second of all, deserve operational excellence, efficiency in just the ebb and flow of money movement of account processing, of reporting of all those kind of more administrative and operational elements of the client experience. And you have a right to kind of ask under the hood a little what is the operational expectations, the technology.

Portal platform portfolio reporting, performance reporting communications, all these elements that play into that experience. Operational excellence. Number six. This ought to be table stakes. It's mind boggling to me how often it isn't, but that alignment. The client and the advisor that their interest be aligned.

And it's no more complicated to me than the advisor being held to fiduciary standard of care and fundamentally that they're paid by the client, that they work for the client as opposed to being paid for someone else, meaning they work for someone else when they're paid by someone else, therefore, are a counterparty to the client, not aligned with the client.

This is not rocket science. And that general alignment. You can be aligned and not trustworthy. Alignment is a great hedge, but ultimately trustworthiness is still number one. And you could be not aligned in the structure, the relationship, but yet still have a lot of trustworthiness. It's just that why not guarantee yourself or at least offer yourself a much better predicament.

By having both the trustworthiness the competence, and of course that alignment and it's alignment of interest to me is very important and what exactly the advisor who exactly they work for. It can always be answered by where the compensation comes from. I'm gonna add a bonus element then I'm gonna let you go.

I didn't put this in the list of six 'cause I'm willing to . Say that there are some clients less interested in things like this than others, but I do believe that some content creation, thought leadership, intellectual capital there are some clients that are totally pleased. I know this firsthand with their advisory experience and they don't read a thing that we put out, listen to a thing we put out and everyone's gonna have different levels of engagement and interest.

But I do believe that someone who has opinions. Perspective, who shares them? Who's not afraid to be accountable? I think it builds trustworthiness and I think it builds value. I think it adds value to the relationship. More information reinforcing more confidence in the designated plan and solution set that you feed confidence in the solution when you are providing ongoing information, perspective analysis.

And when all an advisor does is be a third party mouthpiece for someone else, and then they'll even turn on that person and say, oh, once they're wrong about something like, yeah. Yeah. It's a good thing. I didn't say that. I just shared with you that they'd said it. I just, I believe there's a big merit in people providing that, that content.

It's not necessarily very common, and so obviously in this case we're big content providers. I'm talking our own book, but I would suggest that there's a benefit. Seeing the ongoing thought process of who you're working with. And sometimes there's a thought process, but just not content that comes from it.

Other times, the reason there's no content is that there's no thought. But either way, I believe that is a kind of bonus level of the advisory relationship you wanna consider. So I'm going to leave it there. To the extent. That this is beneficial for those of you who are not clients, I'm happy.

It may very, not every advisor is a fit. The fit matters. There are clients that may believe, or investors that may believe we offer all these things I've said, but we're not a good fit for them for a variety of different reasons. There's a whole lot of other intangibles that I can't speak to. You know, if I were in , Juno, Alaska, where the bond group does not have an office.

And it was very important to me to be able to, once a month or once a quarter walk down the street, go meet with my advisor face-to-face, then I would've to disqualify a firm that wasn't in Juno, Alaska. I get that. I think that a lot of communications important. Some people want that in different ways.

And you know, there's just a number of elements that could be disqualifying for some firms out there, even good ones. But as far as the basics of what I think the criteria ought to be, fundamentally qualitatively trust and competence and guiding principles and depth and breadth of services, operational excellence, alignment, and then that bonus piece about intellectual capital and thought leadership.

I think these are important elements. I hope it's useful. I hope you've benefited and I hope you will rate and subscribe and say good things about us in the podcast sphere as you wish. Thanks for listening. Thanks for reading. Thanks for watching The Dividend Cafe. We'll see you next week. Again, from beautiful New York City.

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