



Adding Value Through Flexibility

Introduction

Over the past couple of decades, I've traveled all over the country to interview successful and innovative financial professionals for my columns. While the advisors and managers rarely disappointed me, the travel and accommodations often have.

That was not the case recently when I visited one of the most beautiful places in America, Marin County north of San Francisco. The trip was a delightful and the advisor interview even better.

I arrived at my destination, Novato, the northernmost city in Marin. I was to interview Tim Russell, Managing Partner of Valley Oak Wealth Management. I originally heard about Tim through a friend who met him at the San Francisco Yacht Club. My friend, a widowed entrepreneur, was fascinated by Russell's history of helping women plan and manage their finances. She concluded his focus on helping women was not inadvertent, but rather something he planned and genuinely enjoyed.

Listening to her, I became equally captivated and decided Russell might be a worthwhile candidate for an interview. Turned out, my friend's recommendation was a good one. The interview with Tim Russell not only revealed his dedication to helping women, but also a dynamic quantitative modeling process with the capacity to move quickly to cash.

By the way, with apologies to folks back home in San Diego, it wouldn't take much to tempt me to move up to this area. It is spectacularly scenic and I hear the wine from nearby Napa and Sonoma isn't too bad either.

The Interview

Mitchell: Before I ask you about the concentration of women among your high net worth clients, tell me something about your investment philosophy.

Russell: I'll try to describe our investment philosophy without getting too technical. It embraces a cap/cash strategy using a proprietary mix of both technical and fundamental analysis. Our objective is to deliver superior returns during strong markets and preserving vital investment capital in down markets.

Mitchell: What market forces does your investment process track?

Russell. Our process uses proprietary price projection models and market pattern analysis that weigh over six hundred variable market forces to generate buy, sell or hold signals.

Mitchell: Is it a new strategy you initiated in response to the market turndown?

Russell: I can see where you might assume that since the process gives us the flexibility to move rapidly to cash to protect assets when we perceive elevated risk. But we did not implement the strategy in response to a bad market; we've been doing this for a long time.

Mitchell: How did it come about?

Russell: Early on, our clients told us they expected above-average investment performance, but just as important, they wanted reassurance that in troubled times we reduce their risk exposure. Most of our clients are in or near retirement, so preservation of capital is critical because they don't have time to recover. The key to helping them do that is the ability to move to cash. When an asset class in our portfolio no longer displays all the characteristics of being in an uptrend, we would rather be in cash and eliminate the risk.

Recently, we've attracted a number of new investors, many of them retirees and women who previously suffered significant portfolio losses during the market instability. They attribute much of that loss to their broker's inability or unwillingness to move them away from risk and into cash.

Mitchell: So the fact that your strategy helps manage risk during difficult markets helps you attract investors who previously were more focused on performance than capital preservation?

Russell: In general, investors tend to value portfolio growth over capital preservation when the markets are surging. The value in being able to move to cash isn't always apparent until the markets hit a rough spot; then, everyone takes notice. Unfortunately, some people in our industry are content to ride the wave when the markets surge and fail to adequately protect their client's investment capital against a prolonged downturn. Providing that buffer is a big part of what our process is specifically designed to do.

Mitchell: Do you think investors fear another big market drop?

Russell: Most people I talk to are concerned about the future, about the amount of debt our country has created, about another severe market plunge. Many have ridden through the recent elevated volatility and are happy to have regained some of what they lost, but they don't want to lose any more money. That's why the knowledge that their portfolios now have greater flexibility and we can move them out of assets we believe are no longer likely to appreciate and into cash is so comforting.

Mitchell: How long do you believe the current bear market will continue?

Russell: I believe it will last for at least a few more years. If you take a historical perspective, there have been four secular bear markets over the past 110 years. Those four markets lasted 25, 18, 17 and 10 years. Our current market is the shortest at 10 years and counting. Of course, past performance is no guarantee of future results.

So based on historic trends, the current bear could conceivably last through 2015 or 2020. Given the economy's high unemployment, high debt and continued high government spending, it's hard to imagine the situation will soon change much. It's unlikely we will see either party display the courage to pay the political or economic price to make significant changes. While that can be said for the United States, I think we may see some opportunities abroad, possibly in emerging markets or other areas.

Mitchell: Is the current market different from previous bear markets?

Russell: It certainly seems so. The principle difference is that it is now a global issue. Previously, portfolio diversification included putting money overseas into non-correlated assets. But globalization has changed that. Whereas we used to talk about corporations going bankrupt, now we have to be concerned about states and even countries going bankrupt.

The emergence of communications technology has linked everyone. So much information is put out that causes confusion rather than clarification. The financial industry's talking heads offer opposing views of the where the markets are headed and try to rationalize their positions so they can look smart and gain a reputation as a guru. If their firm is shorting the markets, the analysts will explain why things are headed downhill. If their firms need to move inventory off their trading desks, the analysts will tout the dormant stocks. It's awfully difficult for investors to sort it all out, to know what's true and what's not, to recognize speculation and agenda.

Mitchell: How do you add value, particularly during bear markets?

Russell: We seek to provide value by minimizing our clients' exposure during difficult times. Fortunately, sophisticated investors understand that value relates as much to reduced exposure as it does to gains, and that is especially true during volatile environments. Reducing risk by any meaningful amount is a shrewd tradeoff that helps address one of the primary concerns of investors today, particularly those dependent upon capital preservation for their income.

We try to provide clarity for our clients. We are independent, unbiased in our portfolio recommendations. We don't have product to move off our trading desks. We don't promote trading for the sake of generating fees. Moving clients to cash when our process tells us it's the prudent thing to do doesn't generate fees for us, but it helps protect our client's capital, and that's why they engage us.

Mitchell: I'm always curious how smaller investment firms compete effectively with the big Wall Street names? How do you do it?

Russell: We are a boutique that specializes in helping retirees and women. Any time our clients call us during business hours, there is a live person who answers the phone, someone who knows them by name. We represent a relatively small group of wealthy individuals and we know their individual circumstances, interests and needs. No one is ever pushed off to a different department. We've had a number of clients tell us they feel like family. That's really gratifying and it's exactly the kind of close relationship we encourage and cultivate. We conduct frequent educational events for our clients and I usually have my two children there; it's that kind of environment.

Mitchell: Why do single women represent such a large portion of your client base?

Russell: We conduct financial planning and investment workshops on a regular basis and I noticed most of the attendees were women, primarily single women. So many were coming that we decided to design workshops especially for them. We also have married women as clients, typically where the husband hires us to make sure if he dies, his wife will have someone she knows and trusts to help take care of her finances. I've observed that women seem more willing to seek advice. They weigh information, make sound decisions, are loyal and make wonderful clients.

Mitchell: In general, do you find women tend to be more receptive to financial planning than men?

Russell: I avoid generalizations but at our seminars, men seem to place greater emphasis on investment performance whereas women tend to be more open to planning and structure. What I find most distressing is how many people who come to our seminars are clients of other advisors and yet have no formal financial plan, no road map for financial independence. How can these people expect a secure retirement when they have no plan to get there?

We create a thorough financial plan to help them get where they want to go. Each year, we review the plan to make sure they remain on schedule. Clients tell us it gives them great comfort to know where they stand towards reaching their goals, even if we had a down year.

Mitchell: You mentioned how much you value your independence as a financial advisor.

Russell: I do. It's one of the principal reasons we joined LPL Financial back in 2002. For many years, LPL has been the nation's largest independent broker-dealer and ever since our second year with them, I've earned membership in LPL's Chairman's Club, representing the top 5% of their 15,000 advisors. I also participate in a national study group made up of leading independent advisors from broker dealers all over the country. We network ideas and solutions to issues, primarily those affecting high net worth investors and retirees. I get a lot of valuable feedback from interaction with other top advisors.

From a client service perspective, our independence frees us to offer completely objective advice. We have no investment banking relationships or other external affiliations to promote, no business conflicts that might interfere with providing our clients with unbiased recommendations. In addition, our compensation is not tied to revenue sharing agreements but rather to client account performance. That independence allows us to always put the needs of our clients first, and they reciprocate with their loyalty.

Mitchell: What was your rationale for starting Valley Oak Wealth Management?

Russell: I was a partner in another financial advisory firm for 17 years, but I always had the vision of creating an upscale boutique firm where I could offer specialized planning services to retirees and near-retirees. I needed separation in order to develop a practice where clients would feel more like family, an office where they felt comfortable just dropping by to chat or have a cup of coffee and read the Wall Street Journal. The decision to follow that ambition turned out to be the right one.

Mitchell: I've gone overtime on our interview today but it was worthwhile doing so. Continued success to you and Valley Oak Wealth Management, Tim.

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

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