Discussing the Current Wealth Management Landscape

A Q&A with Selwyn Gerber of RVW Investing LLC

We all need to think about how to protect what we've earned and how best to help our investments grow. 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. But how best to answer those questions?

To take a closer look at the latest concerns and trends in wealth management, we asked Selwyn Gerber, CPA, CEO and Chief Strategist at RVW Investing LLC to weigh in for a discussion.

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

GERBER: In Dickensian terms it is "the best of times and the worst of times." The US economy is showing steady growth while most of the rest of the world's economies are facing headwinds. Among them are the possible Grexit (exit by Britain from the Euro-economy), the fundamental problems facing the Euro currency and its participants, and the grand experiment of negative interest rates which has yet to be bear fruit and is an adventure into the unknown. Almost all emerging market economies have systemic problems.

The best portfolio design is time tested and supported by academic research: Own broadly diversified equities objectively selected with overweightings towards factors that historically delivered superior long term returns. Professor Eugene Fama earned a Nobel prize for this approach and it is the essential Buffett wisdom. We use bonds to mute volatility and provide liquidity – and eschew hedge funds and alternatives.

◆ What are the major changes for the business of wealth management in the last five years and what key strategy changes do you anticipate in the next five?

GERBER: The major "hot" development is the advent of "robo advisors" where assets are managed for a very low fee by a computer model based on a generic online questionnaire. Major issues are emerging with respect to the adequacy of this approach, which is limited in its ability to respond to the totality of each client's individual situation and to assume fiduciary duties.

We embrace advanced technology within our practice but there is no substitute to ongoing personal contact with clients to maintain a close relationship and take account of existing and changes in circumstances through a personalized *advisor relationship*.

The growth of ETFs will continue and is likely to put further pressure on costs and transparency. Structured opaque commission-rich products are a dying breed.

◆ What is your general market outlook for the remainder of 2016?

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RVW WEALTH
The Science of Capital Markets™

GERBER: In the immortal words of JP Morgan when asked this question about markets responded: "They will fluctuate." Virtually nobody gets economic or market forecasting right, so we ignore predictions and focus on what we know has worked over the long term. Each January as the forecasts flood the financial media, we look at what those pundits' forecasts for the prior year - and chuckle.

◆ Given your firm's outlook and forecast for the year: what is the next advice for longer-term portfolio asset allocation?

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◆ What can advisors do to keep news-driven distractions out the 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?

GERBER: 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.

The growing field of behavioral finance points out that humans are genetically programmed to be bad investors in many ways. Like animals in the wild that herd when they feel comfortable and flee when they sense danger, most investors buy near the top and sell into the panics. Suppressing one's instincts is a key attribute of the savvy investor.

◆ What tools, products and processes can assist advisors in helping clients be more tax efficient while growing wealth and still maintaining cash flow needs?

GERBER: Liquidity needs for the near term should be invested in a ladder of secure bonds or equivalents timed to fund planned outflows. The core portfolio should include an allocation to assets which deliver dividends and interest income. Annually determine whether tax-free or taxable bonds are optimal.

Investors should make maximum contributions to retirement funds and consider conversions to a ROTH. A common error is the placement of foreign equity funds within a retirement plan, because the tax credits are then wasted. Holding those investments personally allows the benefit of tax credits to flow through.

◆ What techniques can be used to create more efficient strategies to pass wealth from one generation to the next?

GERBER: Making full use of the Annual Exclusion of $14,000 per recipient provides the opportunity for material transfers of assets over time, especially if combined with discounts for fractional gifts. Health and education costs are entirely excluded from gifting calculations if paid directly.

Incorporating the "Stretch" feature allows taxes on retirement plan earnings to be deferred for many years into the future.

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

GERBER: Hiding behind complexity is often a way for advisors to cover up excessive fees and charges – and underperformance. We favor radical simplicity where each client knows what they own and why, in a liquid and transparent manner. The advent of ETFs enables investors to gain access to broad groupings of investments under a single umbrella at low cost. Combining several of them provides all that one requires in an equity-oriented portfolio that should be periodically evaluated and rebalanced. The basic rules for designing an evergreen investment strategy are unchanged and should be guided by the stars not the prevailing winds.

◆ What keeps your clients up at night in 2016?

GERBER: Our educational process is designed to make sure our clients are not kept up at night by any aspect of their investments that we manage. If they're not sleeping peacefully we have failed in our primary task.

◆ What should a client be asking his or her advisor in 2016?

GERBER: A few things…
- Please provide details all the fees and costs associated with these investments.
- How are you being compensated for my making this investment?
- Are you acting as fiduciary or do you meet the less onerous "suitability" standard?
- How familiar are you with income and estate taxes – and how they impact my investing?
- How does each investment compare with its benchmark?
- What could go wrong and what are the potential risks the portfolio faces?

◆ What are best strategies to help build and protect wealth in a global economy?

GERBER: Historically in most years it is a foreign country whose stock market performed best so including a foreign equity portion is generally advantageous. Historically a globally diversified equity portfolio returned slightly more than the S&P 500, but with significantly less volatility primarily because individual markets are not fully correlated.

While the US makes up around 50% of the world's stock markets in market value many advisors have a strong home bias. The stringent regulations of Sarbanes-Oxley make the reliability of reported earnings of US companies far higher that of other countries. The US entrepreneurial environment is the world's most vibrant – and owning US-based companies in fact provides exposure to the global economy.

We estimate that around one-third of the sales in our typical portfolios come from abroad and we overweight US stocks.