Self-Made and A Boss - Now What?

"Do the one thing you think you cannot do. Fail at it. Try again. Do better the second time. The only people who never tumble are those who never mount the high wire. This is your moment. Own it." – Oprah Winfrey

"Do you want to talk to the man in charge or the woman that knows what's going on?"

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Forbes recently released its 2018 rankings of "America's Richest Self-Made Women," and what a breath of fresh air this was for me to consume, in what has become a seemingly endless negative news cycle focused on politics over productivity. The women featured come from various backgrounds – some made their money in fashion, retail and cosmetics, while others built their fortunes in technology, media and entertainment. Populating the list of self-made women and entrepreneurs are younger women, older women, educated women, self-taught women, women born to rich families, women born to poor families, women born in the U.S. and women who immigrated from abroad.

I have not had a chance to read all sixty profiles, but [Eren Ozmen's] story is at the top of my list. A Turkish immigrant who came to the U.S for graduate school in the early 1980's, she arrived here broke and held several part-time jobs, including selling homemade baklava at a bakery and working as a night janitor. Today, both she and her husband are betting their fortune to take on Elon Musk in outer space. She is extraordinary and clearly has the proper attitude to succeed as highlighted by the following quote from the article. *"Since arriving in America in 1981, Eren Ozmen has gone from janitor to billionaire co-owner of Sierra Nevada Corp. 'Look at the United States and what women can do here, compared to the rest of the world. That is why we feel we have a legacy to leave behind.'"*

The opportunity to become seriously rich is what distinguishes the U.S. from most other capitalist economies and has made our country the most dominant civilization in the history of the world. In the United States, entrepreneurs are heroes to be celebrated, whereas in much of the rest of the world becoming *too rich* is discouraged, while entrepreneurs are not looked upon with the same admiration.

Building up a successful business is not easy. It takes grit, hard work, dedication, smarts, the right attitude and a bit of luck. At the end of the day, the entrepreneur owns his/her successes and failures. You live by the sword and you die by the sword. To become fabulously rich the entrepreneur must accept the risk of failure – there is no way to avoid this, nor should there be.

The skills it takes to become wealthy may not translate into maintaining and growing that wealth over time or for future generations. As mentioned in our February 2018 newsletter, ["Should You Put all your Eggs In One Basket"] the Forbes 400 rich list can be volatile. Jason Zweig of The Wall Street Journal wrote that only 14% of the members in 1982 remained on the list twenty years on. Holding onto a great fortune is not as easy as it may seem.

There are many talented investment managers and advisers out there, unfortunately there are many more who do not have a clue. Some of the big-name firms are organized in ways that present undeniable conflicts of interest with their own clients. They hire large numbers of inexperienced professionals who are masters at selling investment products but tend to know little about investment management or financial planning. They talk the talk, and often times possess just enough knowledge to get themselves and their clients into trouble, just when an experienced steady hand is needed most. In addition, the financial services industry given its proximity to money can attract more than its fair share of shady operators and outright crooks.

Despite the prevalence of bad firms, unqualified advisers and unethical actors, there are many superb firms and individuals in the investment management and advisory profession that are highly competent, possess little if any conflicts of interest, and work tirelessly for their clients. These firms tend to operate independently, embrace a transparent fee-based model, and are not motivated or encouraged to market internal or external products to clients (this is also known as an open-architecture approach).

Evaluating and hiring the right candidate to manage money and advise is not an easy task for most investors. An entrepreneur may know a lot about his/her business but probably knows very little about investment management or managing market risk. I like to compare the process of selecting an investment manager/adviser to choosing a medical professional or lawyer. Usually, it is only the other trained physicians or attorneys that truly know who the other good physicians or attorneys are. For many people, it is not until the sh*t hits the fan when one knows if they've made the correct decision in hindsight.

To help readers select a good investment professional, I've put together a list of attributes I believe investors should take into consideration when hiring a discretionary investment manager or adviser. *(By "Discretionary," I mean the investor grants the investment manager/adviser responsibility to make investment decisions on behalf of the investor, per an advisory agreement).*

- Honesty – This is self-explanatory.
- Competence – Did your investment manager complete rigorous educational training through University course work or recognized post-grad programs? All degrees, training and credentials are not equal.
- Experience – has your investment manager/adviser spent his/her career focused on marketing investment products or managing investment portfolios? These are two very different things. Choose an investment manager that has demonstrated experience managing investment portfolios successfully through the ups and downs of multiple market cycles. (Today this could include the dot.com crash of 2000 and the credit bust of 2007-2009).
- Internal Products – Does your investment manager/adviser market or include internal products such as in-house mutual funds in client portfolios? If yes, then there is the potential for a conflict of interest.
- Open Architecture – Can your investment manager/adviser consider investing client assets in most securities and many outside products thus giving the client an array of choices for portfolio construction?
- One Size Fits All – Does your investment manager/adviser offer a one size fits all approach? Managing investment portfolios for individuals and families can be highly complex that encompass various objectives, risk factors and time horizons. If the portfolio is not tailored to your specific needs, then run the other way.
- Fraud – Does your investment manager/adviser utilize a recognized third-party independent custody and clearing bank responsible for holding client assets in separate accounts and report on those assets directly to clients quarterly at a minimum? If not, then safety of client assets could be a concern.
- Likeability – Is your investment manager/adviser likeable? Remember, this relationship has the potential to last very long – until the end of days, so it makes

sense to enjoy speaking to and/or spending time with this person.

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On markets, I am still the same way – more cautious than risk seeking. Volatility has picked up and things feel different. The same handful of high flying tech stocks responsible for the majority the S&P 500 index's modest positive performance year to date continue to lead. I don't think this is broadly healthy, and so, this remains on my radar. Outside of these select names, things have not been as rosy. International markets and particularly emerging markets have struggled over the past few months on the back of a strong U.S. Dollar and trade disputes. However, I expect to see a turn-around here and am betting on outperformance in this space. The U.S. Dollar rates yield curve continues to march flatter and closer to inversion. At a minimum, this usually signals caution ahead and is not particularly good for leveraged investors, who borrow U.S Dollars short-term to invest in an array of assets long-term. Leveraged investors have an outsized effect on the market ecosystem. What this means for me and my clients is that our risk exposure is either at or below target in most cases. We cannot predict the future, but we can pick our moments.

Sincerely,

Justin Kobe, CFA
Founder, Portfolio Manager & Adviser