We're in the Client Outcome Maximization Business, Not the Investment Performance Business

Asking an advisor about performance is the wrong question. Your outcome will be far more independent on his fees and business model.

"So our business model and fee structure have evolved to remain relevant, competitive and innovative."

Not too long ago at a community event someone asked me what I did for a living. On learning I was an investment advisor the person asked, what is your investment performance? I wanted to tell him that he asked the wrong question. But of course I gave him several honest answers, none of which provided any investment performance figures.

That Was Then. This Is Now.

Once upon a time I was an active portfolio manager and there was a time when I would have eagerly answered "my investment performance is xx%, and I have outperformed the (insert your favorite benchmark) net of fees by x.xx% over the past 1-3-5-7 years." What I could not answer was whether my outperformance of the benchmark was due to skill or luck. And therein lies the rub.

Fortunately for me and my clients, performance chasing and beating a benchmark at an appropriate level of risk is no longer an appropriate approach to achieving their unique goals and objectives. So our business model and fee structure have evolved to remain relevant, competitive and innovative.

It's About Client Specific Outcomes

The introduction, adoption and ascendancy of ultra low-cost, index-based ETFs has changed the advisory business. Some of us advisors understand this and now build optimally efficient, broadly diversified, globally allocated and low-cost portfolios for clients. Many more advisors still cling to an investment model of yesteryear that comes in one of several typical packages:

- *picking stocks in one slot (e.g. US Large Cap stocks).*
- *picking expensive and actively managed mutual funds*
- *shipping the entire client account downstream to a turnkey vendor*
- *charging clients 1.0% to 1.5% for the above services*

These portfolios typically cost more, return less, miss out on the benefits of a global asset allocation and broader diversification, and expose client portfolios to greater risk…a quadruple whammy of terribleness.

So my answer to the initial question goes something like this:

"It has evolved to be a client-specific, allocation-driven return objective and risk budget kind of performance. For all the right reasons."

I have multiple clients with multiple unique goals, objectives and risk tolerances, so I build broadly diversified, globally allocated, partially hedged, completely liquid, fully transparent, ultra low-cost portfolios designed to accomplish their objectives with the lowest possible risk exposure.

Of course clients engage advisors like Clothier Springs to deliver some type of investment return…that is a given. All asset owners who engage an advisor have some liability (retirement, net worth, college, philanthropic, etc.) they seek to fully fund. But for us it is not the gun-slinging "did you beat your benchmark" kind of performance. It has evolved to be a client-specific, allocation-driven, return objective and risk budgeted kind of performance. For all the right reasons.

The value provided by advisors like Clothier Springs has ascended the investment decision hierarchy from stock-picking to reside squarely and finally at the asset allocation level. ETFs provide ultra low-cost pure market exposures. Investment policy, asset allocation and periodic rebalancing of the asset mix do all of the heavy lifting of a well-organized investment program.

"The answers to these questions will have a far greater impact on your investment outcome than 'what is your performance?' or 'did you beat your benchmark?'"

Asking the Right Question(s)
The more pertinent questions to ask an investment advisor are now:

- *How do you build portfolios?*
- *How many providers are involved in managing my account?*
- *How are you compensated?*
- *What is the overall fee structure (yours and any downstream vendors)?*
- *Who actually makes investment decisions (your firm or outsourced)?*
- *Are you a fiduciary?*
- *What professional credentials do you hold?*
- *Do you adhere to the CFA Institute Asset Manager Code?*

The answers to these questions will have a far greater impact on your investment outcome than "what is your performance" or "did you beat your benchmark."

Investment theory, best practices and business models are constantly evolving.

If your advisor is not evolving as well and you don't like the answers to the questions, you are probably paying too much, accepting lower returns and greater risk.

About Clothier Springs Capital Management
Founded in 2010 by Thomas F. McKeon, CSCM is an independent Registered Investment Advisor. We advise and manage wealth, portfolios and discrete strategies for private and institutional asset owners.

Our Vision
Our founding insight was to build investment strategies that combine the low-cost and market capture advantages of index-based investing with the superior return and risk profiles of a structural, methodical, rules-based hedge.

We extend that insight to now build globally allocated, broadly diversified, liquid, transparent and low-cost portfolios exclusively of Exchange Traded Funds (ETFs), tailored for each investor's unique goals, objectives and constraints.