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DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Blue Ocean Part 3 + "Coach Prime" As Your Financial Advisor? – September 22nd, 2023

Market / Portfolio Wrap:

- A tough week as the Fed stays tight. A repeat of last years late year value catch up?
- Microsoft Increases Dividend by 10% 9.19.23
- JPMorgan Chase Increases Dividend by 5% 9.19.23

Blue Ocean Advisor
Review: *Analyze how most advisors compete and ask, "What if I did the opposite?"*

Part 1 – *Abandon:* *Overly complex strategies and the "you can't ever do it without me" sales pitch. Instead make investors feel empowered. Your value? Guide and teach clients to focus controllable aspects to achieve success: spending rate, minimize taxes, mitigate the chances of "blowing themselves up" / downside risk, avoid performance chasing and maintain low fees. "Simple is Smarter"*

Part 2 – Repel? *Instead of trying to cater to everyone, create and market specialized planning solutions to your ideal client segment only. Don't be the best…be the only. Create your own category. Remember a good brand usually repels more than it attracts, but likely makes you infinitely more referrable and scalable because you dominate a select group you can serve better than others.*

Part 3 – Align the Investments with the Plan
By now you've created a distinct message and got your client on-board with a detailed financial plan. It's time to present the investment strategies. We hear time and time again from great advisors, the credibility built in the discovery and planning stages, allows them to just simply allocate assets with little client resistance. "The strategy in whole and in part aligns with the you plan."

Still there are key goals and objectives that must be achieved for long-term success with you and your client. We still encourage you to get "buy- in" to your philosophy – so they can handle the ups and downs that lie ahead.

The bulk of the investment solution should be distilled to 1 page (yes, it's possible!)

Set expectations correctly. A mentor of mine taught me there are only 2 times to worry in this business: when you don't know what your companies are worth, and when your clients have unrealistic expectations.

- Return: Nothing kills an advisor's business more than overpromising to keep/win business when clients ask for things that don't conform to reality. Example: We saw a study by Natixis. Most clients expect EXPECT double-digit returns year in year out – while their top goal is "capital preservation" which we know is borderline non-sense. If you can't ground them to reality, you simply have to turn the business down. I don't care how big, or how much potential you think they have, its not worth it in the long run. Maybe a competing advisor will cave, but not you. The assets you get now will pale in comparison vs. the headaches you get later.
- Risk: be real. Tell them to expect markets and their accounts WILL go down. Show one-year worst case scenarios based on the risk tolerance work you did in prior discussion. If they can't handle x % drawdown, they shouldn't be in risky assets and need to ramp up preservation assets. Don't promise you can sidestep stock market crashes because 3 bad things can happen. One – you are wrong, and the client is upset. Second - if you are right you have to get them back in at the right time. Third, the client is going to expect you to do it in the future and will dominate future discussions. There is a reason why the market timing hall of fame is an empty room folks.
- Strategies: Remind them each manager has a unique job to do towards the goal, and that they will all go in and out of favor at different times. . Importantly, tell them now that when one strategy goes to hell (and at some point one will – hopefully not mine), you will likely be rebalancing more money INTO that losing strategy. It's the hardest thing for advisors and clients to take money away from a winning strategy into one that looks lousy. ("What take money away from the growth manager now and buy value?"). I said this approach is simple – not always easy.

Advisors who get this right spend little time talking panicked clients of the ledge when markets crash (they expected it), and little time explaining why a 60/40 portfolio isn't keeping up with an all-growth stock portfolio. How liberating is would that feel?

Possible Investment Presentation Template
Berkshire Philosophy:

- The investment plan should focus on meeting the client's liability vs. beating a benchmark or timing the market. This avoids those draining unproductive conversations: "Which way is the market going to go? "Did the manager beat the benchmark this quarter"? "Why aren't we up as much as the Nasdaq?" Think about all the time, effort, and energy you've spent during your career. You can waste time on these questions or learn and present sophisticated estate plans, insurance needs or playing golf with their wealthy partner – your choice.
- The strategies employed should be: transparent and easy to explain. Clients tend to want to sell what they don't understand (especially when it's down), which destabilizes investment plans and your business.
- You should strive to keep the equity strategies and their percentages the same across your book of business. You can explain how you will make changes between

the major asset classes based off either long-run client objectives or valuation anomalies present. Example: underweight growth when it's expensive, avoid risky assets when markets are hot or ADD to one of the strategies when they underperform. But you ask, “if I’m keeping equities standard, how do I customize the risk for each client?” Throttle up or down the fixed income portion. Maybe aggressive clients are only 20% bonds, but more conservative clients get 50% or more. This consistency creates customation, conviction and the ability to make sweeping changes across the book in relatively short order. It’s like you are acting as a type of fund-of- funds manager with your favorite strategies. Variations? We’ve seen advisors give clients a choice of 2-3 additional models, but if a client isn’t on board with them, well they won’t be clients.

The presentation template could look something like this A Simple, Diversified Approach? Note how its income focused, real about downside and you can explain each strategy in 3 bullets or less. You could include all sorts of fancy analysis later, but it gets to the goal it sets expectations for shared success.

Deon Sanders aka "Coach Prime" created his own Blue Ocean.
How Do His Tactics to Relate to Blue Ocean Financial Advisors?
Could you be bold and do it like Coach Prime? Non-Conventional…different…better?

1. Fired players/ Segmenting: he essentially fired his existing team, encouraging them to use the transfer portal to *leave*. His way or the highway. Could you have the guts to get rid of all the clients who don’t fit how you do things?
2. Recruiting: instead of trying to convince them to come to CU, he screens them. Do THEY have what it takes to play for him? What if you aggressively screened and qualified clients to see if they have the assets, problems and most importantly the temperament to be YOUR client.
3. Transparency: instead of keeping things private and behind close doors, he documented all his moves. It’s like you helping clients understand clearly what is in their portfolios so they can understand.
4. Beyond Performance and Winning: Coach Prime is giving good lip service that’s about more than just winning - aiming to cultivate the entire person on and off the field. It reminded me how surveys show clients usually don’t fire advisors based on performance, but for other reasons like lack of communication, or some other intangible. It’s admirable but go through a 2008 style financial crisis, or a coach who goes sub .500 for a few years, limits are tested.
5. Unlike other programs who fought NIL (which allows players to be paid for their name image and likeness) Sanders encouraged it so players could be empowered and shine. It empowers the player vs. the coach, much like how we are espousing advisors empower clients.
6. He embraced partnerships with the community, other coaches, and other star players. If he were an FA it’s unlikely "Coach Prime" would try to manage the assets himself. He’d assemble a great team of managers, outside experts to help serve you so he can do what he does best – motivate and recruit. It’s far more powerful than the solo advisor who does a little bit of everything.

Result? Addition by subtraction. Winning games. Increased attendance. Everyone is making more money. Like the book Blue Ocean advocates – "Coach Prime" is demonstrating the power of challenging conventions, offering something new and redefining boundaries.

Will you?

Call us. We can help put these ideas into practice

Gerard

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