



Sharkey, Howes & Javer

With \$460 million under management, [Sharkey, Howes & Javer](#) has been providing financial planning and Investment Advisory Service for over 15 years. With over 900 client relationships, SH&J's unique approach combines a heavy reliance on internally developed technology with a customer-first service philosophy to create a distinctive competitive advantage. They are now embarking on a bold plan to commercialize some of that technology, and are becoming a vendor of software solutions to the RIA community.



We spoke with Joel Javer who, along with two partners, founded the firm and developed the software in response to a need to provide superior investment allocation rebalancing service for clients.

SH&J relies on [dbCAMS](#) for portfolio accounting, and maintains custodial relationships with Schwab and TD Ameritrade. The other commercial products used are [Junxure for CRM](#) and [FastTrack](#) to chart investment performance. Supplementing dbCAMS and Junxure is a suite of internally developed software for specific applications. Financial planning, billing, fee management, performance measurement, and report collation are all handled by in-house applications. SH&J has software that extracts client investment data from dbCAMS, produces color charts, collates reports, personalizes a cover letter, and delivers a neatly stapled report package that is mailed to clients within 10 days of the end of a calendar quarter.

Javer sees internally developed technology as a way to differentiate SH&J from its competitors, and more importantly as a way to deliver increasingly customized service to his clients. "We invest over \$50,000 a year in technology, and sometimes significantly more if we are developing new software. The result is crafted to respond exactly to the way advisors think, and deliver reports and provides analyses that cater to the individual needs of our large and diverse client base. We do not believe there are solutions in the marketplace that come close to what we have deployed. If we would have been able to find off-the-shelf software we would use it."

eAllocator: Rebalancing for the RIA Market

Advisors must periodically rebalance across asset classes or when a client adds or takes money. For the overwhelming majority of advisors, this is a manual and labor intensive process, with little automation beyond the use of Excel. In 2006



SH&J made the strategic decision to take [eAllocator](#) – its internally developed rebalancing tool - and make it available to other RIA firms. eAllocator rebalances by creating several “model portfolios,” which define the target asset allocation (by asset class and sub-asset class) for clients. Individual clients are assigned a model portfolio, and eAllocator helps the planner re-work the proper mix of mutual funds or individual securities to bring the client’s portfolio in line with the individual client model.

The challenge of rebalancing is handling details such as long and short term gains (you don’t want to sell a security just before a gain is about to transition from short to long term), handling regular cash distributions (important for many of SH&J’s clients who are retired), and avoiding unnecessary penalties such as short term redemption fees imposed by some mutual funds. Javier believes that rebalancing should be handled in an iterative framework, so eAllocator suggests changes to a portfolio and an advisor reviews, adjusts, and approves those changes. Once the changes are in place, trade instructions are automatically generated and sent to Schwab or TD Ameritrade. There is no need for an employee to verify trade confirms or downloads.

eAllocator has been beta tested by three firms with different styles, numbers of advisors and existing technology platforms. According to Javier, “it was a tough decision to let others use this key piece of technology. But we see tremendous benefits to the clients if this chore is handled timely and easily by each advisor. The market for rebalancing is an untapped opportunity and something that we can continue to develop for advisors like us.”

Constructing Portfolios: Selecting Funds to Maximize Future Return

When new clients begin working with SH&J they meet with a service representative and, based on their background and specific needs, are assigned to one of six CFPs in the office. Clients complete a fact-finding questionnaire, gather some documents, and meet with a planner for two or three hours, during which their financial and emotional goals are identified. Javier and his team determine the required rate of return on their investments, in order to achieve the agreed upon goals. SH&J relies heavily on the breadth of experience in their office, with individuals that specialize in estate planning, college financing, retirement, 401(k) plans, and other disciplines.

Portfolios are constructed from mutual funds, ETFs, and a limited number of individual securities (both equities and fixed income). SH&J keeps about 90 to 100 funds on its approved list. If a fund is dropped, there is always a replacement ready on the “watch list bench.” Javier finds a replacement by first talking to his peers for ideas, based on the particular style he seeks. One of his associates researches funds on Morningstar, but Javier avoids falling into the trap



of “ending up with a bunch of funds whose claim to fame is that they have done well historically.” He focuses on the potential for future performance, and will talk to individual fund managers about their views of the market before selecting a new fund. For asset classes where Javier finds that funds are consistently underperforming their benchmark, he will put clients in ETFs. All performance is measured after fees, so the lower fees on ETFs are taken into account. FastTrack is used to monitor fund and ETF performance over time.

Leveraging Internally Developed Software for Performance Measurement

SH&J meets with clients periodically, with an eye toward reviewing any significant changes in the client’s situation, particularly with regard to mortgages and other debt. Javier notes that most clients are not “performance hungry,” but are very concerned that their portfolios meet their personal financial goals. Another internally-developed SH&J tool, dubbed TrendLine, is used to measure and present performance results. TrendLine uses a graphical approach to display a client’s projected financial needs over time, the size of the portfolio necessary to meet these needs, and how closely the actual portfolio is tracking against the goals. Javier prefers this approach because it “avoids measuring performance simply against benchmarks. It shows what is most meaningful to clients – whether we are delivering results that meet their specific needs.”

Last quarter (Q1 of 2007), through the use of their internally developed quarterly reporting system, they generated, reviewed and mailed 900 client reports by April 7th. The report includes a cover letter, rate of return summary, benchmark information and color charts and graphs reflecting the allocation of client portfolios. The reports come out of the printer, collated, stapled and ready to put in a window envelope. All the advisors get together for a day and review each report. Then they are on their way, without the need to bring on extra staff. Javier believes this to be “an advisory firm world record,” so if any of our readers can claim superior results, please use the feedback button at the end of the article to let us know.

Growing a Software Business and an RIA Business

The decision to share the eAllocator software with a growing number of advisors has turned into a separate business. Growing the eAllocator business requires a customer-first service philosophy, but also demands that SH&J invest heavily in research and development, product management, and marketing. SH&J now exhibits at trade shows, carefully solicits feedback from customers and prospects, and has an ambitious product plan for the coming year, including many improvements that will streamline the processing of multiple portfolios in a batch mode. Javier comments, “The need to rebalance is not going away. There



are more and more subtleties to manage, and ROI for an advisor doing automated rebalancing is becoming more apparent.”

Javer admits that he faces a unique challenge managing his financial advisory practice while simultaneously building the eAllocator software business. The advisory business has grown steadily through referrals, and SH&J has gained a reputation among medical professionals, having been named to several lists of “best advisors” for physicians. Javer believes the key to the advisory side of the business is “making each client feel like they are our only client. When a client calls in, we view their file on-line and make sure we have their most current information in front of us when we talk to them. We’d like to think that every firm works this way, but we believe we excel at it and that’s what gives us our edge.”

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