



Full Life Financial – A Startup Firm Builds an Investment Strategy

After having spent nearly a decade in the brokerage industry and primarily offering financial planning on an as-needed, hourly rate basis, Keith Newcomb recently dropped his brokerage affiliation and turned his attention to building the asset management business of Full Life Financial LLC, a fee-only RIA,. Newcomb recognized that asset management was a scalable business model, unlike pure financial planning. After identifying a core group of clients to bootstrap his practice, he hung out his shingle.



Newcomb is a solo practitioner, and holds the [Accredited Investment Fiduciary designation](#). He manages just over \$4 million in assets, and offers reporting services for another \$1 million in variable annuities, REITs, and other non-discretionary holdings. Newcomb currently serves approximately 20 households, and the average account size on new accounts is just under \$1 million. TD Ameritrade is his primary custodian.

Recognizing that technology can be very expensive for a startup firm, Newcomb went through a thorough search for vendors. He previously relied on broker-dealer platforms, and did not want the 'one size fits all' limitations inherent in those offerings. He was pleased with Schwab's PortfolioCenter system, saw that their licensing fees for emerging RIAs were reasonable, and contracted with [Adhesion Technologies](#), who offers PortfolioCenter in a hosted environment. PortfolioCenter's risk management reporting capabilities, such as the ability to provide standard deviation and Sharpe ratios for investments, is an important feature. Newcomb also uses [B-Ready Outsourcing](#) for downloads and reconciliation of custodial data.

Newcomb is a long time user of [Money Tree](#) for financial planning. The ability to offer both goals-based and cash flow-based planning, using a single set of data entry values, is important to Newcomb. "Money Tree is extremely flexible and accommodates almost every scenario," Newcomb said. His clients generally do not have a predisposition toward goals-based or cash flow-based planning, but Newcomb gravitates toward a cash flow approach, because he finds it facilitates tax planning, especially AMT-based issues, with greater accuracy.

For CRM Newcomb uses ACT!, although he does not use the version customized for financial advisors, because the customized templates he has developed offer the necessary functionality for his needs. He faces some



integration challenges, but notes more vendors are developing import/export pathways which have the potential to simplify data entry.

Client Goals and Risk Tolerance Assessment

Newcomb begins each client relationship with an interview, focused on identifying the issues that are important on a personal level. "I believe that it is necessary to get a perspective on each client's values and priorities," Newcomb said. He treats objectives as milestones, recognizing that the process does not stop as an objective is met – the client will continue to the next milestone. "I define milestones very specifically and in my clients' own vocabulary," Newcomb added. He defines goals in terms of financial resources, as well as the time and energy necessary to meet those goals. For example, Newcomb has a client who is a single doctor with a cattle ranch. The client's time and energy were fully consumed in the management of the ranch, leaving no room for pursuing personal relationships. Newcomb developed a plan to hire a small staff to manage the ranch, affording his client the time to lead a more rounded personal life. "Traditional approaches to planning might not address these needs," Newcomb said, "unless I fully understand the client's goals."

After mapping out his client's goals, Newcomb facilitates an exercise where his clients prioritize those goals. "This takes time and sometimes it is best if I step away from these discussions," Newcomb commented. He forces clients to identify the risks they face, including conventional risks (death, disability, loss of income) as well as specific risks, such as a son-in-law that might lose a high paying job or a commercial property, owned by a client, that relies heavily on one tenant that is having trouble paying rent. Newcomb sees that many clients do not treat risk properly – either they are overly cautious or not cautious enough. Newcomb uses [FinaMetrica](#), an Australian vendor, to assess a client's risk tolerance relative to the general population. Newcomb uses the reports from FinaMetrica to discuss risk tolerance with his clients, relative to the target return they will need on their portfolio.

Building Portfolios at the Asset Class and Sub-Class Level

Newcomb constructs portfolios by first selecting asset classes at a broad level, based on the desired rate of return and risk tolerance of his clients. He then focuses on style, market cap, and geography, which since 2000 led him to position portfolios to take advantage of the last several years of small to mid cap, international, and value-style out-performance. Portfolios currently consist of US and foreign equities (60%), exchange tradable real estate (10%), commodities (10%), fixed income (20%), and a small cash reserve. Equity investments are typically through ETFs, giving him the flexibility to shift between value and growth or across capitalization bands, countries, and regions, without evaluating



individual securities. Newcomb uses a mix of conventional mutual funds and ETFs for commodities, real estate and fixed income allocations. Newcomb noted that he has done well with closed-end, floating rate bank loan funds, which were trading at a discount. Those discounts have disappeared, but these investments still yield north of 8%.

Newcomb uses the [Tradestation](#) platform as a technical and fundamental analysis tool to help identify market trends. He employs stop loss orders on his investments, driven by technical analysis, to prevent runaway losses from taking hold. Newcomb focuses on movements at the asset sub-class level, across US and non-US assets, looking for the appropriate time to shift between, say, value and growth segments.

When presenting performance results to clients for the first time, Newcomb does a very detailed walk through of results, carefully explaining his decisions regarding asset class and sub-class allocations. Most clients are focused on the S&P 500 as a familiar reference point but, because of tactical moves in portfolios, Newcomb's results sometimes exceed and sometimes trail that index. He clearly explains the reasons behind his results and his underlying thought process. Newcomb finds that subsequent client meetings do not require the same detailed walk through, and are often handled through a phone call.

Competitive Differentiation through Disciplined Methodology

Newcomb believes that his competitive strength comes from three sources. First, for those clients that desire it, he provides in depth planning that he believes is "second to none." Second, his investment decisions are made on a portfolio level and take into account client needs and the economic environment. "This might not sound like a competitive differentiator," Newcomb said, "but when combined with the third factor – tactical strategies used to preserve capital – it becomes one." These tactical strategies include the stop loss system and a disciplined sell approach. "Many competitors don't have a disciplined sell methodology, but I believe having it improves relative performance in bear markets," Newcomb added. "This is worlds apart from a simple rebalancing discipline, and tends to result in lower volatility, which clients notice and appreciate."

The freedom to be independent of Morningstar style boxes is critical to Newcomb. "Investors today need to recognize that diversification means more asset classes than in the past," says Newcomb, adding that "innovations in ETFs, ETNs, and new mutual fund strategies have made broader diversification accessible to most investors, especially in real estate, commodities, and international investments. The world is changing, there is more economic growth



outside the US, and so why not structure portfolios to take advantage of this greater opportunity set?"

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