

# CPA Wealth PROVIDER

January 2009 *For a successful Financial Planning Practice*

## COVER STORY

# “Heading Off” Crisis

by *Stuart Kahan*

**H**ow is it possible to keep your head on straight when we are seeing an enormous drop in wealth in our retirement and personal accounts? We are overwhelmed with negative financial news—falling home prices, declining corporate earnings, and record levels of consumer debt. Investment accounts, retirement plans, and home values are down significantly, the potential for additional regulatory oversight looms and unemployment is climbing—it was 4.7 percent in December 2007, over 6 percent in November 2008, and may rise higher in 2009. With the litany of negative indicators, it seems impossible to make heads or tails of the uncertainty plaguing the market. Even resolving to not open your monthly investment statements is doubtful to put you at ease.

So we don't lose our heads, we turned to an experienced financial planning and wealth management firm that has been in the Washington D.C. area since 1991 to offer us some insight into the current retirement crisis. The firm is Sullivan, Bruyette, Speros & Blayney (doing business as Harris SBSB™), an SEC-registered investment advisor providing, fee-only wealth management services, including financial planning, portfolio management, and tax services to high-net-worth individuals and families across the U.S. Harris SBSB employs over 40 people in their

McLean, Virginia, and Chicago offices, including 23 *CERTIFIED FINANCIAL PLANNER™* professionals, eight Certified Public Accountants, and one Chartered Financial Analyst.

The leadership team, including co-founders, Greg Sullivan, James Bruyette, and Peter Speros, brings a wealth of experience and expertise to the firm. Greg and Peter both graduated from The Pennsylvania State University and Jim from Duke University. As an interesting side line, Speros co-captained the 1983 Penn State National Champion team. These guys clearly have their heads in the game.

The firm itself has received countless accolades in recent years, including being named one of The Top 25 Investment Advisors by *Investment Advisor Magazine* and one of The Nation's 100 Most Exclusive Wealth Advisors by *Worth Magazine*.

### *IN OVER OUR HEADS*

Warren Buffett is a strong advocate of common-sense investing, and one of my favorite investment principals of his is the oft-quoted line, “Investing is simple, but it's not easy.” When the market principles we take for granted under “normal” market conditions are turned on their head, as seen in the current crisis, we need to remind ourselves of the wisdom of

the old masters. Greg Sullivan, co-founder and President of Harris SBSB, points out, “Buffett is right about the simplicity of investing. You’ve got various options—cash, stocks, bonds, commodities. From a simplistic point of view, you can look at these alternatives, factor in your objectives of safety and growth, and make selections accordingly. But, in the context of an incredibly volatile marketplace, like we are seeing today, is where things get tricky. We are continually analyzing how deep and long the downturn might be in order to help clients make smart financial decisions. Our goal is to give clients as much certainty as we can even though we face many factors that are out of our control.”

Sullivan outlines the ways that Harris SBSB attempts to increase certainty in uncertain times for clients. “First, we look to increase our clients’ liquidity. You’ve heard the expression, ‘cash is king,’” says Sullivan, “and this is particularly true during a recession.” He notes that it is important to be able to access cash and not have needed funds tied up in bonds or securities that are difficult to liquidate. In addition to the importance of liquidity, the firm specifically focuses on the client’s individual cash flow requirements. Pamela Shortal, a Managing Director, chimes in, “Our goal is to build portfolios for clients based on their individual risk tolerance and plan for cash needs eight to ten years out in many cases. We structure laddered bond portfolios to produce a safe and reliable cash flow for several years.” Finally, the firm looks to invest in bonds with fixed maturities. This gives clients additional confidence about cash sources being readily available when needed.

Shortal emphasizes, “Because we plan for our clients’ cash needs well in advance, we have the time we need to let equity positions grow.” Sullivan agrees and notes that “in today’s economic climate, equity exposure has been scaled back significantly.” He says, “Our clients are quite nervous and so we are walking them through all of their funds and trimming positions where appropriate. However, we try to maintain a long-term perspective and remain committed to equities over the long run.”

### PUTTING OUR HEADS TOGETHER

Speaking of long-term investment perspectives, we can turn to the philosophy of another old master, Benjamin Graham, a prominent investor, economist, writer, and professor of the 20th century for insight. Considered the father of value investing, Graham’s philosophy provides a strong founda-

tion on which Harris SBSB base their current thinking. His work influenced an entire generation of investors, including Warren Buffett. Graham believed, “In the short run, the market is a voting machine; in the long run, the market is a weighing machine.”

Graham reasoned the best time to invest in a company is when its market price is below its intrinsic value. His focus on value led him to emphasize that investors shouldn’t be overly concerned with the fluctuations of stock prices. He had a keen understanding of the relationship between the “voting machine,” or the public’s short-term sentiments which push stock prices from their underlying values, and the long-term reality through which the “weighing machine” will allow a stock’s price to impartially and accurately reflect the company’s worth.

Speros explains, “We manage our clients’ investment portfolios by looking beyond the short-term volatility and focusing on the factors, both positive and negative, that we believe are going to affect the market in the long run. Another way to think of it is that we are not using the market as a gambling vehicle and trying to time our investments. We believe it’s time in the market and not timing the market that brings desired results.”

Sullivan nods, “We caution against the notion that stocks are cheap and so we should buy in. While a significant amount of cash and other short term investments is sitting on the sideline looking for an entry point back in the market, good analysis and a degree of patience are key. Buffett has made a sizeable move into U.S. stocks himself, but he is operating under his own set of assumptions and is comfortable with a certain level of risk. We have to keep things in perspective and help clients determine their true risk tolerance to select an appropriate level of exposure to the market.” As both advisors attest, in this environment, a client’s risk level tends to become quite obvious as seen through the response to the downtrend.

Sullivan concludes that in light of the continued market volatility and the retirement crisis at hand, the firm is heavily focused on cash flow and risk management. “Our goal is to help our clients make smart decisions to become financially independent and then we want to maintain their financial independence, preserve their capital, and provide for their cash needs.”

It must be working because the firm has some 850 clients with assets under management of \$1.7 billion. Hopefully the market will head in the right direction. CPAWP



**HARRIS**  
**SBSB™**

Sullivan, Bruyette, Speros & Blayney, Inc. • McLean, VA: 1-888-727-2443 • Chicago, IL: 1-877-796-7272

Harris SBSB™ is a brand name used by Sullivan, Bruyette, Speros & Blayney, Inc., an SEC registered investment advisor.