The Start Up of You

What would you consider your most valuable asset to be? Some people may think about a retirement account or piece of real estate. What about your career as your most prized possession? A person's major revenue stream, typically their career, is likely a major key in the ability to achieve life and financial goals.

One of my recent reads was The Start Up of You by LinkedIn founder Reid Hoffman. The book provides some actionable takeaways that you can implement to invest in yourself and career. Remember that some of your biggest life decisions also play a major role in your financial life. How you handle and invest in your career is certainly one of those decisions.

If you want to chart a course that differentiates you from other professionals in the marketplace, the first step is being able to complete the sentence, "A company hires me over other professionals because …"

- I am first, faster, better, or cheaper than other people who want to do what you're doing in the world.
- I am offering something that is hard to come by.
- I am offering something that is both rare and valuable.

Your assets, aspirations, and the market realities need to fit together to form a career plan. Developing a key skill doesn't automatically give you a competitive edge. You may be good at something (asset), that you're passionate about (aspirations), but it doesn't necessarily mean someone will pay you to do it (market reality).

You should be nurturing the network you're building. Who you know is what you know and according to Hoffman people typically fall into one of three categories;

1. <u>Domain experts</u>, people who really know the topic at hand. Got a question about negotiating your salary? Ask your lawyer friend who has negotiated a million contracts.
2. <u>People who know you well</u>, people who have a good sense of your priorities, personality, and personal history. They can help you unpack feelings of confusion and sometimes intuitively know how you'll likely feel about various outcomes of your decision.
3. <u>Really smart people</u>, outsiders that stand a chance of being completely different from anything else you'll hear.

Find the right balance of people to include in your network among these types of people. Imagine you got laid off from your job today. Who are the ten people you'd email to solicit their advice on what to do next? Reach out to them now, when you don't need anything specifically.

Develop your weak ties. Weak social ties, or acquaintances, it is argued, are responsible for most of the embeddedness and structure of social networks in society. Weak ties in and of themselves are not especially valuable; what is valuable is the breadth and reach of your network.

Hoffman points out, "It's impossible to know exactly when an inflection point will disrupt your career. The only thing you can safely know about the future is that it will be sooner and stranger than you think. So instead of trying to do the impossible and predict when an inflection point will threaten, prepare for the unknown. Build up your soft assets and proactively embrace new technology so that if and when the inflection point does come, you are ready to swiftly parlay skills into a Plan B."

Like wealth planning, assessing and evaluating your career is a lifelong process, not something you do once.

Insider Trading

2 Million…Number of borrowers between the ages of 50 and 64 who had Parent Plus Loans as of 2015 (Government Accountability Office)
12.5…Percentage of their total budget that the average American spends on food (Bureau of Labor Statistics)
54…Percentage of millennial women who said they were living paycheck to paycheck (Wells Fargo)

State of the Portfolio

One of the aspects I love about asset management is that my score is always visibly showing on the scoreboard. While I know that not every investment that I put capital to work in will be a winner, I also know and have experienced that over the long run things tend to work out. I consider investment time horizon to be one of my investing edges along with clients who take a long-term approach to the markets as well.

Contrary to what you may see in the media headlines, not every stock is going up. Clients expect me to discuss portfolio performance in both good and bad times. This is one of those times where I must deliver disappointing news that my investment performance has not kept up with the performance of our selected benchmarks this year.

My investment process has been built on investing in companies with the following quantitative metrics;

- Use debt sparingly - Debt to Equity - < 1
    - Ability to take advantage of opportunities at any given time, increases financial flexibility
- Generate Positive Operating and Free Cash Flow
    - Allows for self-funded growth, reduces costs, increases operational flexibility
- Return on Invested Capital (ROIC) - > 10%
    - Demonstrates that company management is allocating capital in an efficient manner and generating above average returns
- Demonstrate a positive trend in change of earnings estimates
    - Stock prices tend to follow the rate of change to expectations

The other aspect of investing is the qualitative piece which focuses on developing a thesis' of what could drive company earnings, and thus price both higher and/or lower. This is where I have missed the mark on several investments. Even though I can get the quantitative piece correct, I can miss on the qualitative piece due to changes in market sentiment or other forces that are driving stock prices.

Because of the quantitative metrics that I use, I believe that companies that I make investments can withstand stretches where they are out of favor with the market. Companies that do not carry high levels of debt, generate positive operating and free cash flow, while generating above average returns on capital are not likely candidates to go out of business or underperform the market over long stretches of time. Rather than sell during turbulent times, I typically continue to hold onto such investments.

The strategy of holding onto companies who have underperformed the market has been a drag on portfolio performance led by the following companies;

- Sam Adams – increase in smaller craft breweries taking market share
- Buffalo Wild Wings – increase in food costs, decline in sports viewership especially the NFL
- The Buckle – brick and mortar retail stores are feeling the Amazon Effect
- Frontier Communications – slowness in wire line business
- The Kroger Co – Amazon purchase of Whole Foods
- Under Armour – increase in branding costs
- Synchronoss Technologies Inc – potential buyer withdrew takeover offer

Most of these companies have continued to pay and grow their dividend while purchasing shares of their own company stock. Both signs of a healthy company. While I can never predict the returns of these specific companies or the market overall, those investors who have a long-term investment approach, will have the investment edge of time on their side.

Personalized Investing; Understanding Benchmarks

When I look at what I do for clients at TAMMA, I can break it down into two distinct categories; wealth planning and asset management. One of the value propositions that I offer to clients is to have their wealth planning integrated with their asset management. In my mind, you can't or shouldn't have one without the other. Remember, wealth planning spans vast components of both your personal and financial life such as retirement, tax, education, estate, and "big goal" planning to name a few.

At TAMMA, I employ two unique benchmarks, one specifically for wealth planning and another geared towards asset management. You likely see returns for the S&P500, Dow Industrial Average, or NASDAQ splashed across all the financial and main stream media headlines. What most people should realize but likely don't, is that those benchmarks are awful when it comes to setting a benchmark for a balanced portfolio like those that I manage at TAMMA.

Those benchmarks that I just called out only focus on U.S. equities. Would you own a portfolio that is 100% invested in U.S. equities? That would be extremely risky and could be detrimental in achieving your wealth planning goals. The custom portfolios that I build for clients are broadly diversified within sectors (different industries), but more importantly, diversified against different asset classes such as small and large cap, international and domestic equity, bonds both international and domestic, real estate, and cash. The asset management benchmark for a given portfolio must be representative of a group of assets that represent a diversified portfolio.

I use three Vanguard LifeStrategy Funds to benchmark client portfolio returns at TAMMA based upon the given level of risk that suits each individual client. Those benchmarks include the following;

- Aggressive – 70% to 80% equity / 30% to 20% fixed income
- Moderate – 60% to 70% equity / 40% to 30% fixed income
- Conservative – 50% to 60% equity / 50% to 40% fixed income

Let's shift our attention to a benchmark used for wealth planning. While the benchmark can vary by goal, the bottom line focus of your wealth management plan should be, are you able to achieve your desired goals? There is a very distinct difference between the asset management benchmark which is more metric centered, I achieved an actual return of X vs. the benchmark of Y vs. the wealth planning goal that is strictly goals based and did I achieve that goal.

At TAMMA, I use a leading-edge software tool called MoneyGuidePro which helps to develop a wealth management plan which can advance into customizable alternative scenarios based upon the client's own unique needs and wants. For each scenario, the tool calculates a plan's probability of success. The value to the client becomes selecting a realistic plan that the client can work towards to achieve their ultimate goals.

Although there are never any full proof plans, I guide clients to aim for a probability of success between 70% and 90% to begin with. Trying to predict what is going to happen 5 years down the road is basically impossible let along 10, 15, or 20 years.

The goal here is to know and understand that wealth planning and asset management require different benchmarks. It is critical to know that these benchmarks work largely independent of each other and that there are a multitude of factors that can have an impact in achieving your goals. You could beat your asset management benchmark but still fail to meet your wealth planning goals. The true measuring stick should be, can I achieve my goals, and do I have a plan in place to help me get there?

For questions about any wealth and asset management topics, do not hesitate to contact me to find out what options may be best for your own personal situation. Financial relationships are built upon trust. Your continued support in having conversations and making recommendations to important people in your life regarding your connection with me at TAMMA is always greatly appreciated and welcomed.

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