

Our Asset Management Approach: Customized Yet Systemized *A Comparison to Starbucks*

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Having started my career as a Certified Public Accountant working for the international accounting firm (Big 8) of Haskins and Sells, I learned early on the importance of systematizing procedures. That environment was known for very high employee turnover at the professional level, yet the firm's quality of services remained consistently high. It all had to do with the carefully laid out operating procedures that all professionals had to follow, combined with thorough management supervision and review systems.

To illustrate this concept, let me share with you my Starbucks experience. Having stopped at many Starbucks over the years with my sister, Rochelle, I became impressed with the way they always satisfied her with her favorite beverage, regardless of the store's location. That beverage happens to be a tall chai tea, triple shot of "skinny" (fat free) hazelnut with skim milk served extra hot. While no one ingredient seems to be that unique, it is the specific combination that makes my sister happy. I have stood at many Starbucks counters with her reviewing the options available, and my mathematical side tells me there are hundreds of choices that each Starbucks customer has behind each relatively small counter. No matter who is behind the counter serving Rochelle her tea, the quality of the beverage and her satisfaction remain consistent.

Where is the similarity between a Starbucks and M.J. Smith and Associates? Well, from the inception of every new client relationship, we spend an inordinate amount of time getting to know our clients. We analyze each client's cash flow situation, liquidity needs, income tax picture and risk tolerance. Over the course of a number of meetings we arrive at a consensus as to what the portfolio design should look like. We then document it in the client's Investment Policy Statement, which is then signed by both the client and me personally. One copy is given to the client to retain for their records and one copy is maintained in our records. This now becomes the client's policy (or, in Starbucks parlance, beverage) that everyone on our team must abide by.

We all know circumstances may change where a client's Investment Policy Statement needs adjustment. It may come from a desire to alter the portfolio's risk characteristics

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or to perhaps have the portfolio adjusted for more tax efficiency. Nonetheless, any change will then be noted by our staff, and a new Investment Policy Statement will be signed.

Let's talk about the consistent quality of the Starbucks ingredients. There is a complete department that selects and monitors every ingredient that every store offers, from all the coffees and teas to the flavored syrups and yes, I am sure, even the milk. This is why Rochelle is satisfied no matter who is behind the counter in her favorite store, or someplace out of state while on a business trip.

M.J. Smith and Associates has an Investment Committee that maintains a tightly controlled and carefully monitored list of approved investments from which we use as we allocate them in each client's portfolio in accordance with their customized Investment Policy Statement. I personally am head of that committee, which meets every month, to assure that this list remains of the highest quality. No employee or advisor can make an investment selection or recommendation to a client unless it comes from this approved and closely monitored list. This assures to our clients that every investment recommended by any one of our current or future employees comes from the Investment Committee, headed by me.

As an underperforming investment is identified, our committee conducts additional due diligence and research to decide whether we should put it on the Watch List. This means that no new funds will be directed into it unless we see performance improve. If the committee decides a change is warranted, all clients are notified concurrently and the appropriate changes are made as expeditiously as possible.

Most people realize that when a firm has been around as long as M.J. Smith and Associates, Inc. —almost 30 years—there will be employee turnover. While never comfortable from the firm's, the client's or the employee's perspective, it is a part of life we all encounter. While the reasons for departures may range from an employee's desired changes in career path to that of inadequate performance, the short-term discomfort from a client's perspective may remain.

Our goal at M.J. Smith and Associates is to provide the best and most consistent wealth management experience available. While clients may develop deeper relationships with certain members of our team, the reality is that the entire team is there to serve our client's every need. Our office keeps extensive notes on all aspects of every client's situation, allowing any one of us to easily step in and be fully informed on the relationship. Even though I try to do the best job possible to find employees who will stay for many years, life is full of unpredictables and I must be prepared for them in order to maintain the quality of our client's experience. That is the reason I developed the above mentioned processes years ago.

As a final note, the following quote is from results of an extensive study of wealth management firms by the national certified public accounting firm of Moss Adams, LLP:

“Top human capital (employee) firms tend to perform much better on human capital management criteria and have higher turnover, as they are less likely to hold onto underperforming staff and are willing to make more proactive staffing changes to better the performance of the firm.”

In summary, rest assured that I remain committed to you and your financial well-being and I will do everything possible to provide you with the most dedicated team of professionals to address your needs. Thank you for the trust you continue to place in our firm.