The Journal *of* Wealth Management

VOLUME 23, NUMBER 2 FALL 2020

The theme of this letter is to contrast **assembly** and **manufacturing**.

As I think back over the path my career has taken over the past 20 years, I must admit to one important failure: the trickle-down that I expected to see for innovation from the ultra-wealthy to the mere affluent has really not occurred. Many of the concepts that I would see as key in our practice and those of many confrères who work with the same kinds of clients had to start with the ultra-wealthy. They were the "mega-pension plan equivalents" of the individual wealth world. They tended to employ the most sophisticated advisors and that made them a better target for newer approaches, whether they focused on tax-efficiency, goals-based wealth management, the use of nontraditional assets, or even the true integration of all wealth management activities. While the adoption of innovation has certainly not been universal within the ultra-wealthy, it is fair to argue that it has been quite a bit more prevalent than elsewhere in the private wealth world.

Why has it been so? In the end, I believe that one can point to two important factors:

(1) Complexity: Though in fact many (most?) of these innovations involve a higher "local" level of complexity, it does not follow that the day-to-day management of more complex processes is necessarily a more complex endeavor per se. A simple analogy expressed in two questions might help explain the apparent contradiction: (a) What would you rather use, an abacus or a computer? (b) What would you rather make, an abacus or a computer? Most people will prefer to use a computer and build an abacus… Complexity that cannot be systematized can, in truth, be a self-defeating endeavor. ***However, systematized complexity can lead to something that is both superior and easier to use***.

(2) Failure to redefine the problem. Many Registered Investment Advisors (RIAs) dealing with the wealthy have viewed innovation as an endeavor that in the end is focused on creating a customized solution for each client. Though many would concede that a customized solution may be better for each client, they also immediately argue that customization cannot be scaled up. Their businesses could not maintain profitability if they adopted measures leading to customization. Innovators failed to demonstrate the benefits of mass-customization and ***to redefine the RIA business as one of assembling the elements of a solution rather than the manufacturing of that solution***.

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In earlier writing, I have used racing bicycles or custom-made glasses as examples of mass customization. That the eventual product is indeed totally customized to the needs of the user, whether that be preferences or prescriptions, is undeniable. However, that customized product is nothing but the assembly of premanufactured elements, whether one considers the carbon fiber tubes of the frame or mechanical elements of a racing bicycle or the frame and lenses of one's glasses. The keys to success in a mass customization effort are (a) the identification of the distinct elements comprising the eventual solution, (b) the definition of what can be common to all versus that which needs to be customized, and (c) the formulation of a systematic process that brings the individual elements together into the final product.

Applying this to the world of wealth management provides a wealth of new ideas that we have, in many places, not fully investigated:

(1) The integration of financial and investment planning.
(2) The integration of tax and investment planning and execution.
(3) The integration of commingled structures as a means of simplifying investment management.
(4) The integration of insurance products into a wealth solution, even for people who might not need insurance (particularly true for life insurance and including the use of annuities as a means of dealing with longevity risk in a goals-based investment plan).

It would therefore be reasonable to expect that the greater use of the often better solutions offered to the ultra-wealthy by RIAs working with merely affluent clients will require the development of more systematic financial processes and, probably more important, a focused message that the complexity we hate is that which makes our life harder, not that which makes the products we use to solve problems if the complexity is hidden. The industry must devote time and energy to develop software and related tools to help RIAs use the same solutions for affluent investors as offered to the ultra-wealthy; this may well include the need for more narrowly defined commingled investment vehicles.

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The Fall issue of *The Journal of Wealth Management* covers a wide range of topics. Our first two articles stand on their own. Peter Mladina addresses the issue of computing after-tax return and risk parameters, offering a set of equations for use in practice, thus improving the discovery of the optimal after-tax portfolio and enhancing long-term wealth planning in the presence of risk. The second, by William Jennings, Thomas O'Malley, and Brian Payne, looks into the normal return gap, which they view as a simple but powerful measure of relative performance and portfolio diversification, and develops a generalized specification of the expected difference in returns between two investments based on the "folded" normal distribution.

Our next three articles focus on behavioral finance issues. Our first piece, by Heena Thanki, Anushree Karani, and Anil Kumar Goyal, looks into the psychological antecedents to financial risk tolerance, concluding that Financial Satisfaction is negatively correlated with FRT, whereas Financial Anxiety, Obsession with Money, Personality Type, Self-esteem, and Sensation-seeking Behavior are positively correlated with FRT. Our next article is by Renu Isidore, P. Christie, and Joe Arun and aims to determine the biases exhibited by successful investors who earn high returns in equity investments and also the decision-making tools they employ, offering findings that could be beneficial for equity investors aiming to maximize equity returns and minimize irrationality. The final article in this group is by Michael Pompian, who looks into the coronavirus bear market to give some behavioral finance explanations of why this angst is happening and some perspective on bear markets—so that investors can reduce panic and make sound investment decisions.

Our next four articles delve into various elements of portfolio management. The first, by Brian Jacobsen and Chao Ma, looks into the basics of portfolio construction with individual securities applied to building a portfolio of managers. The second, by Saurabh Gandhi, Sandhir

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Sharma, and Manu Sharma, examines the relationship of the Dow Jones Asia Select Dividend 30 Index (DJASD) with six Asian market indices: Bombay Stock Exchange, Jakarta Stock Exchange Index, Korea Composite Stock Price Index, Nikkei (Japan), Shanghai Stock Exchange, and Taiwan Stock Exchange Corporation, concluding that the DJASD Index has a low positive correlation with its principal component. Our next piece is by Paskalis Glabadanidis and presents closed-form analytical solutions to the active mean-variance portfolio management problem relative to a prespecified benchmark subject to a budget constraint and a beta constraint, showing that the value-added of active portfolio management is simply the incremental certainty equivalent return of the active portfolio relative to the certainty equivalent return of the benchmark. Our final piece, by Manel Kammoun and Tandja M., investigates, empirically, whether infrastructure-focused mutual funds provide superior results compared with comparable equity mutual funds not investing in infrastructure, suggesting the growing belief that infrastructure-focused equity mutual funds are able to provide superior results.

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