VOLUME 1, NUMBER 1

The Journal Of PRIVATE PORTFOLIO MANAGEMENT

SPRING 1998

The explosive growth in high net-worth investable assets — fueled by the ongoing intergenerational transfer of wealth, a record bull market and growing liquidity of assets by business owners — is transforming the private client investment industry. Wealthy individuals are getting smarter and more demanding about investment services. They are seeking out more non-traditional investments and expecting more sophisticated, institutional-caliber portfolio advice.

Our research in this market shows that most current information is directed at institutional portfolios. It has limited application for taxable portfolios. Responding to the need for information on the latter, Institutional Investor, Inc. is proud to introduce *The Journal of Private Portfolio Management* (*JPPM*), a sophisticated research quarterly focusing on investment strategies for the private, taxable portfolio.

Just as our flagship journal, *The Journal of Portfolio Management* offers the latest institutional investment strategies from leading practitioners and academics, *JPPM* is the only journal to showcase rigorous research from leading industry experts on the *art* and *science* of private portfolio management. It will contain practical ideas on issues of interest to wealthy families and their advisors (family office executives, portfolio and fund managers, private bankers, consultants, accountants, and others): defining investment objectives and risk parameters for individuals, determining the balance between growth and preservation of wealth, setting asset allocation in order to maximize after-tax returns.

Guiding the editorial content of *JPPM* are two highly regarded industry veterans: Jean Brunel and Nancy Jacob. Jean is managing director and chief investment strategist for private clients at J.P. Morgan & Company, Inc. Nancy is founder and head of Windermere Investment Associates, an investment consultancy to wealthy families. This inaugural issue features research developed by both.

Please feel free to write or call Jean, Nancy, or myself with comments and suggestions on our coverage. We look forward to receiving submissions on topics that the editors detail in their letter on the next page.

We believe that you will find *The Journal of Private Portfolio Management* to be useful and thought provoking!

Gauri Goyal
Publisher

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This is the premier issue of a new Journal that will provide a forum for exploring investment issues relevant to individual investors. We define "individual investors" as people who invest as principals rather than as agents, directly or indirectly through companies, trusts, or foundations. As usual, given the complexity and individuality of private investment circumstances, we enjoin readers to review ideas or concepts discussed herein with their financial advisors and not to construe an article as a recommendation for any solution discussed. Responsibility for any idea rests with the author(s) of the article.

Our target audience is investors, including — but not limited to — investment professionals. We believe the Journal will be read by individuals as varied as individual investors, professionals within family office or foundation structures, discretionary investment managers, financial advisors, consultants, trust and estate specialists, and members of the academic community. This diversity has two important implications. First, we encourage authors to use simple communication styles and to use appendixes to discuss complex issues in more depth. Second, we anticipate publishing two types of articles: "Full-length" articles analyzing particular topics in-depth, and selected "essays" or "comments," which raise an issue for further research.

STRUCTURE AND CONTENTS

Our experience suggests that individual investor problems are different from those faced by institutional investors. At a minimum, they often involve tax and structural issues. Furthermore, many individual investors do not see their investment problems as driven by a set of specific liabilities. While financial theory might argue that these liabilities exist, nevertheless, the fact that they are not perceived to exist tends to eliminate the analytical discipline involved in matching assets and liabilities and gives a greater focus to qualitative or behavioral issues. Hence, the Journal will usually comprise of articles falling in one of the following six generic categories.

Behavioral Finance. This topic will analyze the way risk is perceived and should thus be measured; the nature and intensity of "maverick risk" (the risk of being different) or of "decision risk" (the risk of reversing a good decision at the point of maximum pain); the differences between investment and performance horizons; the need for "absolute" rather than "relative" returns; the concept of "psychological returns"; the interplay between the desire for control and the need to delegate; and the role of the "normal allocation" and the nature of its "ownership."

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Investment Policy Formulation. This topic is devoted to looking at the maximization of after-tax wealth. It may require a review of our traditional efficient frontier concept. In addition, we will evaluate the role played by non-traditional investments, particularly in the context of the possible need to define the optimal strategic allocation in after-alpha rather than passive asset class terms, and we will explore issues related to low-basis or concentrated holdings and their impact on the design and execution of investment policy.

Investment Policy Execution. This topic will deal with the implication of tax-awareness on the structure of a manager stable; the role played by self-managed investments; the opportunities and pitfalls associated with the use of commingled vehicles such as mutual funds and limited partnerships; the interplay between the structures used to "house" the various pieces of the overall strategy and the goals required from these strategies; the definition of active management parameters and guidelines (i.e., the difference between radical and incremental bets, the role of management styles).

Tax-Aware Investing. This topic will encompass the maximization of after-tax wealth; single- or multiperiod optimization frameworks; the passive management alternative; the contrast between tax awareness at the asset class level and tax awareness at the aggregate portfolio level; and the role and value of volatility. It will also provide ample room for creative research to promote substantial progress, as will a focus on the interplay between physical and derivative securities.

Interdisciplinary Issues. This topic will examine the interplay between investment issues and estate planning objectives; charitable giving preferences and/or the particular origins and structure of their wealth; the optimal investment of a multitrust structure or of onshore versus offshore entities; the relationship of generational planning to investment policy formulation and execution; the management and incentivization of fiduciaries; and the role of leverage and its interplay with option-based strategies in an after-tax environment.

Performance Measurement. This topic will strive to answer such questions as: How should after-tax returns be computed, and how should they be assessed? Should performance be measured in pre- or post-liquidation terms? Should it be assessed on any sub-portfolio in isolation, or reflect broader "total wealth" considerations? Should it reflect directed cash flows or not? What is the appropriate benchmark?

Jean L.P. Brunel
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