Passive Capital Management

The Benefits of Consolidating Assets with One Advisor

There are important benefits to having your financial assets consolidated with one advisor, especially if that advisor does not accept commissions for simply generating activity in your account. The benefits include the ability for one trusted advisor to:

- develop an asset allocation for your entire portfolio,
- monitor the allocations regularly in a comprehensive fashion,
- measure risk and return of the overall portfolio, and
- understand the total costs that you are paying for money management services.

Having your portfolio effectively managed and measured can have a meaningful impact on the value of your portfolio and, as a result, your quality of life. Make sure your portfolio is not unnecessarily complex.

Your overall asset allocation will be responsible for approximately 90% of the variability in your returns over time. It is critically important to have the appropriate asset allocation given your risk tolerance. If your portfolio is unnecessarily complex, with multiple advisors buying dozens of funds or stocks, then you probably will not know or understand your actual asset allocation. If you do not know your precise asset allocation, then there is no way for you to know how much risk you're taking. Understanding risk and expected return is what investing is all about. Make sure you or a trusted advisor understands your overall asset allocation, *not just how one particular portion is invested*.

Once you've established an asset allocation that is appropriate for you, it is necessary to monitor and maintain these allocations throughout all market cycles. This will ensure that you are taking the appropriate level of risk regardless of what the markets are doing. There should be a good reason why you and your advisor decided what your target allocation should be, so there is also a good reason to stick with this allocation. If you let your equity allocations increase dramatically in a bull market then you will be exposing yourself to an inappropriate level of risk and will be vulnerable *when* (not if) the next market correction occurs.

Instead of analyzing how one particular investment has done in isolation, it is also important to view each investment within the context of the total portfolio. A properly constructed portfolio should contain investments that are not perfectly correlated with each other. Said another way, it's ok to own something that occasionally goes down as long as it doesn't always go down when other investments go down. You want to own things that zig and zag at different times in order to lower the volatility of the overall portfolio. The individual securities do not matter per se; the underlying funds you own are simply tools that should enable you to construct a portfolio that is appropriate for your investment goals. For example, owning a small cap domestic stock fund is not the ultimate goal; what matters is the risk and return pattern that small cap domestic stocks offer. It is a return pattern that is different than that of large cap stocks or international stocks.

Finally, it is crucial that you understand what you are paying for investment services. You probably know exactly what you paid for your car, television, property taxes and most other things you've purchased recently. Investment services should be no different. Some advisors and brokers offer break-points on their fee schedules; the more money they manage on your behalf, the lower the marginal fee. So if your money is spread across a few different advisors then you are probably not benefiting from these break-points.

There is no reason to make your portfolio more complex than it needs to be. Your portfolio can be better managed, measured and maintained in a more cost-effective manner if the assets are consolidated with one trusted advisor. Passive Capital Management can help you make better investment decisions.

Scott D. Reinhardt, CFA
Co-founder
Passive Capital Management, LLC