

ADVISOR FORUM

How are you advising your clients in light of recent volatility in the market, including the 'flash crash' and ongoing European crises?

Kahler Financial Group ***Increasing Alternatives***

Richard Kahler, president at the South Dakota-based firm, told *FA* that he has been increasing the alternatives allocation in his clients' portfolios to take advantage of the increased volatility in the market. He's shifted 24% of the portfolio to alternatives, up from just 10% last year. He's also changed what products make up the alternatives allocation, moving from a long-only commodities fund to a 10% position in a managed futures limited partnership, 10% in absolute return funds and 4% in long-only commodities. "The place to get lower volatility is not in the timing," he said. "We don't want to time the market, so we found managers who have a track record and we let them do it," he said. So far the strategy's resulted in less hand-wringing from investors. "They're a lot calmer now than during the crash," he said.

Kahler Financial Group managed \$130 million in assets as of March 31.

Brinton Eaton ***Volatility Is Your Friend***

Jerry Miccolis, chief investment officer, has a portfolio methodology that embraces volatility, he told *FA*. "If you position the portfolio right in the first place, volatility is a good thing," he said. Clients at the Madison, N.J.-based advisory firm have assets allocated among equities, bonds and several very volatile securities, such as real estate, commodities and timber, that are mixed together to create a volatility neutral portfolio, he said. Lately, the firm has ratcheted down the traditional stock and bond portions and beefed up the alternatives allocation to 35% from 20%.

Brinton Eaton currently manages approximately \$550 million in assets.

Fairfield Financial Advisors ***Proper Diversification Supports Stability***

Jane King, president of Fairfield Financial Advisors, told *FA* most of the firm's clients have 20-25% of their equity

allocation in foreign markets but primarily in mutual funds, "so there is another layer of protection with the guidance of experienced international managers." She also noted that in a time of uncertainty she considers the funds diversified enough to ride volatility.

King noted the flash crash and other recent ups and downs in the domestic market, "are more like a quick punch in the nose but are over before you can do anything about it." As a result of some of the longer downturns in the market, she noted the firm reduced risk with most clients so they can make it through even 1,000-point-drop days. "We have to figure out how to keep people in the market so we can show returns; most of our clients were up 3-4% in the first quarter," she concluded.

The Boston-based firm advises approximately \$100 million in assets.

USAA ***Focusing On Risk Management***

Kenneth Kilday, wealth manager for USAA, which has about \$540 million in assets under advisement, told *FA* the market volatility is drawing the attention of clients, which generally initiates an investment

conversation. "[Clients'] initial concern may be performance, but we reiterate that while return is important, risk management is everything," he said.

Kilday noted the firm advises with a comprehensive risk-management approach to determine if they can still confidently answer the three significant questions that weigh on most retirees' minds: do I have enough, is it allocated properly and from which source should I draw for optimal efficiency?

The debt crisis in Europe is reminding clients of their own lack of confidence here in the U.S., he said, but added that recent news has focused clients towards looking at their personal 'big picture,' leaving behind thinking in terms of isolated 'buckets' of money.

