

THE VALUES PROPOSITION

From faith-based investing to social activism, some wealth managers serve clients with a different kind of mission statement

By Ed McCarthy

Private client wealth management firms like to emphasize their role in helping clients achieve financial and life goals. That makes sense. It is the clients' money after all, and satisfied clients' fees pay the bills. But, according to Mark Tibergien, CEO and managing director at Pershing Advisor Solutions in Jersey City, New Jersey, the best wealth management firms also have a "very clear value proposition." These businesses, which include both investment managers and financial planners, show clients why they should work with the firm instead of emphasizing products, processes, or services.

"What we find in this business is that clients choose to do business with you because they believe what you believe," he says.

Tibergien cites several examples of how successful firms might express those beliefs. These include impact investing, incorporating philanthropic strategies, and focusing on a market niche in which the advisory firm can "create a community that people can connect to." That approach can help the advisory firm position itself more clearly in the marketplace. As Tibergien explains, "The strength of that proposition dictates the difference between being a commodity or commoditized provider and a true value provider."

"TO BE RICH IN GOOD WORKS"

There's an old adage that cautions against discussing religion or politics in business. On the surface, this principle would make faith-based wealth management a dubious proposition. But public affiliation with religion hasn't been a problem for some investment managers and advisers. They cite it as the driving force behind their success. One example is George Schwartz, CFA, founder of Ave Maria Mutual Funds in

Plymouth, Michigan. He had been in the investment management business since 1980 when, in 2001, his friend Tom Monaghan, then owner of Domino's Pizza, asked Schwartz to consider starting a Catholic mutual fund.

"I said, 'Do you want me to invest in companies that make rosaries or Bibles, or what are you saying?'" Schwartz recalls.

Monaghan's suggestion led to the formation of Ave Maria's mutual funds, which are overseen by a Catholic advisory board that includes a cardinal. The funds use screens to avoid investing in companies whose activities violate Catholic Church principles, including providing abortions, conducting embryonic stem cell research, producing or distributing pornography, and contributing to Planned Parenthood. The result, according to Schwartz, is a modest reduction in the investment universe from which the funds choose securities.

"My analysts and portfolio managers screen out those companies, about 150 companies out of the Russell 3000," he says. "About 5% of the Russell 3000 is screened out of consideration for these six Ave Maria mutual funds."

Investing this way has a positive impact on both employees and fund investors, Schwartz maintains.

He says that most of the funds' employees are Catholic, and all are longtime believers in the values they espouse in managing the funds. He estimates that at least 95% of the funds' investors are Catholic and 100% are "pro-family and pro-life—that's our niche."



George Schwartz, CFA

Schwartz emphasizes that the funds' mission is to make money for shareholders. But he believes his investors bring an added awareness to the investing process, as evidenced by their support of the selection screens. "I think they're somewhat more sophisticated, at least in that regard, than the average shareholder, who sometimes doesn't focus on the fact that they own part of a company," he says. "I think too many investors that own stocks or stock mutual funds think of it as a piece of paper or as a blip on a computer screen as opposed to what it really is, which is ownership of the company."

Islamic investing is another example of screening companies to ensure they comply with a religion's guiding principles. For Muslim investors, the goal is to invest in companies that are sharia compliant. According to the Amana Mutual Funds Trust website at Saturna Capital, "Investments that *sharia* scholars universally consider unacceptable are companies whose primary business activities violate the core tenets of Islam, including the manufacture or marketing of alcohol; gambling or gaming activities; conventional interest-based financial services; pork and pork products; and pornography. In addition, most *sharia* scholars advise against investing in tobacco companies." There are also financial screens to rule out companies that hold excessive amounts of interest-producing assets or are too highly leveraged by the measure of Islamic standards.

As with other religion-based funds, screens identify qualifying stocks. Nicholas Kaiser, CFA, chairman of Saturna Capital in Bellingham, Washington, which advises the sharia-compliant Amana funds, says that his firm's investing process starts with about 10,000 global stocks but that only about 40% get through the internally developed screens. Other Islamic investing firms use third-party screens.

Naushad Virji, CEO of ShariaPortfolio in Lake Mary, Florida, says that the screens for sharia compliance also appeal to socially responsible and conservative investors.

"This is not necessarily a religious thing," he explains. "It's derived from religious principles, but three-quarters of the people utilizing it are non-Muslim. They're not in it because of religion; they're in it because this is a great way to hedge against leverage." Kaiser provides a similar statistic and estimates that less than 20% of the



Nicholas Kaiser, CFA

Amana funds' investors are Muslims.

The majority presence of non-Muslim investors in these funds reinforces the point that purpose-driven wealth management can succeed even if just a small fraction of the US population formally affiliates with a stated purpose. Notably, the wealth managers themselves are *not* required to be part of the believing cohort. Kaiser started the Amana funds in the mid-1980s after M. Yaqub Mirza, a Virginia-based businessperson and Islamic activist, approached him with a request to start a fund managed according to Islamic principles; that fund became the Amana Income Fund. The

suggestion paid off, and the Amana funds now have more than \$3.5 billion in combined assets.

Virji's firm is relatively new, and he prefers not to discuss managed asset amounts, but he believes sharia-compliant investing appeals to non-Muslim employees as well as to investors. "I think people are generally excited that they can be part of something that they genuinely feel proud to be behind," he says. "And that goes for our non-Muslim employees as well. They may not necessarily have a problem with pork, but they're more than happy to abstain from pornography or perhaps gambling or some of these other things."



Naushad Virji

Jim Ware, CFA, founder of Focus Consulting Group in Long Grove, Illinois, says that a key to succeeding with a purpose-driven approach is what he calls "alignment" between what the firm's principals espouse and how they live. Using a Christian-faith-based purpose as an example, he says the principals should "actually practice what they preach," which in turn helps establish and maintain the firm's brand and reputation.

That alignment is evident at Ronald Blue & Co., which is headquartered in Atlanta. Ronald Blue, the firm's retired founder, visited Africa several times in the late 1970s. Those travels led to recognition of how needs in Africa contrasted with wealth in the United States, according to Russ Crosson, who was hired by Blue in 1980 and is now the company's president and CEO. A seminary professor subsequently challenged Blue to serve a higher purpose: "He said, 'Why don't you use your CPA background and help Christians be good stewards [of] what God's entrusted to them and free up resources to meet these needs around the world?'"

That appeal led to the firm's development as a purpose-driven organization that adopted biblical principles for wealth management. The company's tagline is "Wisdom for wealth. For life." To explain the firm's mission, Crosson cites scripture: "Instruct those who are rich in this present world not to be conceited or to fix their hope on the uncertainty of riches, but on God, who richly supplies us with all things to enjoy. Instruct them to do good, to be rich in good works, to be generous and ready to share" [1 Timothy 6:17-18 as translated in the *New American Standard Bible*].

"And so that's been our mission for 35 years," he says. "Our clients that come in, they want to be good stewards. Our staff wants to be a part of something like that, and that's how it works. They're called—we use the word 'calling'—they're called to be part of a company that's doing something more than just helping people make bigger barns and build bigger piles of wealth."



Russ Crosson

The purpose-driven approach appeals to its target audience, as evidenced by the company's 13 offices nationwide and more than \$8 billion in client assets under management. Crosson notes that the firm's advisers are also expected to follow the principles of exemplifying generosity, getting out of debt, and diversifying their investments, among other guidelines. Advisers' bonus payments are predicated on following that guidance.

"We don't just say we do these things with our clients," says Crosson. "We have built into our system a way to make sure all of our advisers are also practicing these principles."

Of course, managers who practice what they preach don't get a free pass for poor investment performance. The Amana funds receive three- and four-star Morningstar ratings. Virji maintains that sharia-compliant investments generally have a "pretty decent" correlation with the S&P 500 Index over the long term, although short-term results can vary significantly. Schwartz also emphasizes that Ave Maria fund investors don't sacrifice returns to align with their moral beliefs. Investors don't buy the fund on the assumption it will underperform its peers, he points out: "I think they're buying this fund for the likelihood of good investment performance, as we've had in the past, and because they believe in the pro-life, pro-family mission."

THE ACTIVIST APPROACH

It is difficult to overlook New York City-based Christopher Street Financial's (CSF's) purpose-driven mission. A web search for the firm brings up the trademarked slogan: "Gay Money—Straight Advice." The webpage for Jennifer Hatch,



Jennifer Hatch

the firm's president and managing partner, states, "She believes that it is CSF's duty to be both an activist and major donor in the LGBT (lesbian, gay, bisexual, and transgender) community."

Robert Casaletto founded the organization in 1981 as "the first investment and financial services firm committed to serving the gay, lesbian, and supportive community." Casaletto died in 1996 and left the company's ownership to a charitable fund run by the American Civil Liberties Union (ACLU) for their Lesbian and Gay Rights Project. Hatch, who had been working in high-yield bond sales at Bear Stearns, acquired the firm with partners in 1997 before eventually assuming sole ownership.

"I always thought, 'Wouldn't it be amazing to work for Christopher Street Financial, where I could actually work and be myself and be in the community and not be closeted and work with people in the community?'" she says. "What ended up happening is that I had the opportunity after [Casaletto] passed away to invest in the firm and to ultimately own it myself."

The firm's community involvement ties in with its business. Hatch cites CSF's work with the Family Equality Council (FEC), a gay parents' advocacy organization, as an example.

In addition to donating funds, CSF allows the FEC, which is based in Boston and Washington, DC, to use part of its Manhattan office as an in-kind donation.

Expressing values this way also helps raise the company's profile among prospective clients. "By working closely with Family Equality, we have the opportunity to make a difference with a group of people that we would really like to work with," Hatch says. "There definitely is both a profit motive and a giving-back motive. ... It's really a terrific thing, and it feels good at the same time. It's a great way to spend your money. But it's something that we always have done, since we bought the firm and even before that."

In Hatch's experience, the firm's LGBT community support has benefited its staff recruitment. She receives unsolicited hiring inquiries from candidates who, like herself, want to work in their own community. She also hears from non-LGBT job seekers who admire the firm's approach to its work and involvement with social justice issues. CSF works with non-LGBT clients as well. Hatch reviews the client roster every few years, and the non-LGBT percentage has held steady around 25% since 1997. That diversity is reflected in the reasons why prospective clients contact the firm.

"I think that some people understand that they have very specialized needs, and they say, 'We need somebody who is a specialist,'" Hatch says. "That's one category. There are [also] people who are looking for a boutique, a personalized or customized experience, and they [would] probably consider any non-wirehouse."

SHARING AND GIVING BACK

"Giving back" is a corporate mission for Hammond Iles Wealth Advisors. The firm, based in Wethersfield, Connecticut, emphasizes its philanthropic activities and technical planning skill in working with like-minded clients. The founding principle is "a deep conviction for actively sharing the fruits of our labor within the communities where we live and work," according to the firm's website, which also states, "The Hammond Iles Outreach Committee identifies opportunities and cultivates employee and client involvement. As Connecticut financial advisers who give back to our community, we serve on the boards of nonprofit organizations, sponsor fundraising and educational events, participate in our houses of worship, and work with youth organizations to make our local area a better place."

Greg Hammond, the firm's president and CEO, and his business partner, Scott Iles, joined the firm in 1999 and 2001, respectively, when the company was Kelly Financial Group. They assumed ownership in early 2005 and put themselves through a values-identification exercise to determine the company's direction.



Greg Hammond

"We found when we did that that we wanted to make a greater impact not only in the lives of our clients that we were working with but also with our own lives and with our

firm in the community in which we live,” says Hammond. “So, it was from that point forward that we started to reposition and put our purpose as part of our marketing. In October of 2012, we rebranded the firm and changed the name to Hammond Isles Wealth Advisors and ... really made sure that all of our information, both client [facing] and publicly facing, emphasized the work that we were doing internally.”

An example of that work has been the company’s fundraising on behalf of the Connecticut Children’s Medical Center. The initial commitment was for \$50,000. After meeting that amount, Hammond Isles agreed to a second \$50,000, toward which they’re currently working.

These efforts provide internal benefits as well, according to Hammond. “I think for employees it’s very empowering and motivational to be part of an organization that is out to do more than generate a big bottom line,” he says. “So, I think that all of our employees that help and contribute to our internal philanthropy as a company support it, as well as enjoy the opportunity to work for an organization that does so.”

Some clients aren’t interested in philanthropic planning, and in those situations, the firm provides financial planning and investment management. But even for clients who aren’t interested in philanthropy initially, the firm often demonstrates how charitable giving strategies can provide multiple benefits.

“I think all too often we have this myth in our mind that says that if I’m going to leave money to charity, it means that I’m going to leave less to my family and I may have less to myself during my lifetime,” Hammond says. “If we use philanthropic planning properly, many times we can not only increase income to our client but also leave more to their family while still making an impact with an organization or cause that they care about.”



Elissa Buie

LIFE-SIZE INVESTING

“Live big” might sound like an advertising slogan, but at Yeske Buie, a wealth management firm with offices in San Francisco and Vienna, Virginia, the phrase is more than a catchy tagline. It represents the company’s mission to “help our clients make the most of their most valuable resource: life.” A second slogan reinforces wealth’s secondary role in the firm’s perspective:

“It’s about the size of your life, not the size of your wallet.”

The “live big” philosophy resulted from firm owners (and marriage partners) Elissa Buie and David Yeske developing a marketing plan that would incorporate their shared vision of what constitutes an abundant life. “Living large” seemed to emphasize flashy consumerism, so they discarded that phrase. “Live big” captured a different slant on the theme and had the added benefit

of prompting listeners to ask what the phrase meant. Yeske cites the work of spiritual author Marianne Williamson as a motivation for this approach to wealth management.

“This is not about living large,” he adds. “Living big is about realizing your vision for your life in the fullest possible way, whatever resources you have available to you.”

The firm’s philosophy is intended to be inspirational, but is it practical? Buie says that the “live big” focus positively influences staff and clients. For example, “learn big” describes how each employee is expected to continually learn and develop new skills. Associate financial planners are expected to earn master’s degrees, and Yeske Buie pays all educational expenses. Clients learn to focus on and better appreciate what genuinely matters most to them, whether it’s family or community service. Some activities involve spending money, but others are low cost or free; the underlying theme is that the activity should be fulfilling in some way.



David Yeske

WORTH THE RISK?

Adopting a purpose-driven mission is not a risk-free strategy—saving the whales could sink a wealth management firm. Some current or prospective clients might object to the adviser’s mission and take their business elsewhere; the same is true for employees and potential hires. And if the expressed values are too far from the mainstream or the firm’s mission has a very narrow focus, the appeal to clients and employees—and any resulting business benefits—will likely be limited.

Nonetheless, advisers who have taken this approach believe it’s worth the risk. “I think that having a business that incorporates your values is really a great life to be living,” says Hatch. “It helps you to really thrive, to feel really alive in this world, that you’re making a contribution, that you’re helping people to do things that they wouldn’t be able to [do] otherwise.”

Hammond agrees. “Incorporating your passion and core values and beliefs into your practice does two things,” he says. “One, getting out of bed every morning is a whole lot easier when you’re heading off to do work that you truly believe in and have a passion for. And the second thing is creating a message and creating a firm that [are] in line with your values and your passions is going to attract clients that have the same core values you do. It’s going to bring people that are going to be more enjoyable to work with and, I believe, [will] certainly add to the success of the firm.”

Ed McCarthy is a freelance finance writer in Pascoag, Rhode Island.

KEEP GOING

“Profit, Profession, and Service,” *CFA Institute Magazine* (May/June 2013) [www.cfapubs.org]

“A Values-Based Value Investor,” *CFA Institute Magazine* (May/June 2012) [www.cfapubs.org]