Podcast Transcript: Video Discussion: Inside the JNBA Investment Committee

Michael Bilotta:

Good afternoon. I'm Michael Bilotta, Senior Advisor and Investment Strategist here at JNBA Financial Advisors. I'm joined here today by my two colleagues, Andy Buccanero, a Director of Investment Management and John Schlueter, Associate Portfolio Manager. And the two of them and a couple others work very closely in aligning our investment strategy with our processes and roles and responsibilities around who carries those out, how they get carried out, because we make promises on behalf of our clients to always make sure that we are consistent, disciplined, and put them first in every decision that we make and everything that we carry out. So with that in mind, I'll just turn it over to the two of you a little bit to maybe just give a brief description about your role, and then we can dive a little into discussion about the process, the philosophy, how we carry it out and so on.

John Schlueter:

Hi everyone. I'm John Schlueter. And as Mike alluded to, I'm an Associate Portfolio Manager. My main roles are implementation of our core strategy for all of our clients and general portfolio management.

Andy Buccanero:

Hi everyone. I'm Andy Buccanero and I'm the Director of Investment Management, as Mike said. Two core components of my role are not only facilitating or supporting our portfolio management team with trading, research, things like that, but another core component of my role is oversight of our investment committee.

Michael Bilotta:

Yeah, that's a good point. The investment committee, we're asked a lot how the investment decisions are made and is it one person or does somebody tell us what we should be buying and selling and so on. So talk a little bit about the investment committee here and what the purpose is and how that operates.

Andy Buccanero:

Yeah. The investment committee plays a big role here at JNBA. As a truly independent firm, we don't have a bigger firm or a big bank to lean on for research, ideas, things like that. We do all of that in-house. We have representation from a couple different areas of the firm, advisors and strategists such as yourself, the core portfolio management team, and even the leadership team as well. And everyone comes to the table with a different way of thinking, different viewpoints, and it just seems to work really well for us. So how it functions behind the scenes is we've got our core research team that meets on a weekly basis, and that's where we chat about what's going on in the markets, chat about the week ahead, come up with a trading game plan if needed, if we're trying to roll out a new strategy, something like that.

But also we do a lot of the heavy lifting for the broader investment committee when it comes to idea sourcing and research, things like that. So anyone can bring an idea to the table. It's typically passed along to the core team and they're the ones responsible for vetting that idea, running some numbers and taking that idea back to the rest of the committee with a proposal in place for how we should either make changes to our strategies, whether it's changing a fund out, tactical calls, overweight, underweight, things of that nature. But yeah, it seems to work pretty well for us.

Michael Bilotta:

Yeah, that is a good point that it's not just a single person. And as we can all attest, those conversations sometimes do get a little spirited as we have different ideas and different ways of looking at things. And I don't think you'd want it any other way, to be honest. I mean, it's important to not. I guess to put it this way, if we're all on the same side of the table, you need to get concerned that maybe we're missing something on the other side. So from that perspective, I do agree that the committee works well. At the end of the day, the committee sets the tone and so on, but then we get into the process and developing strategies and how we carry those strategies out and so on. So without taking too much of John's thunder, I'll just hand it over to John to talk a little bit about our process and maybe strategy formulation and things along those lines.

John Schlueter:

In terms of our process and how we build portfolios here at JNBA, it starts with a backbone in passive indices. No matter what the asset class is, we go ahead and have roughly 50%, give or take, depending on your strategy in a passive index. And then building off of that, we use active fund managers, whether they're thematic or rules-based, however we think that they're going to add value to the portfolios. We vet these, as Andy said, we are 100% on our own and independent as far as how we do research. We conduct meetings with these firms. It's fully independent and we pick them based off the merit of do we think they're giving us the best bang for buck as far as risk versus return?

I would say some asset classes have a higher propensity to outperform their benchmarks. So we might have a higher toggle to active management in different asset classes, most notably small cap, fixed income, emerging markets. U.S. large cap is typically the most efficient market in all of the land. And so it's hard to beat the S&P 500 a lot of the time. And that's probably why you'd see that as our largest active share. Implementing those strategies, nobody's portfolio is the same. Everyone has different time horizons, different family dynamics. They might be wanting to buy a house soon or planning for retirement soon, whatever life goal they may have. No one portfolio is the same. We tailor everyone to them. And depending on what type of accounts they have, we may shelter different assets in different accounts. I would say that that's one thing that's different at JNBA. You're not a number. You are an individual and we meet you where you are and tailor your portfolio to you and your needs.

Michael Bilotta:

Yeah. I think that's important as well, but if we could take a step back and just talk about asset allocation and diversification in general, how do we get to the point at where we say, okay, now let's put the building blocks in. How do we know where to put them?

Andy Buccanero:

Yeah, maybe I'll start here, just very high level. Our bread and butter is running asset allocation type strategies. So we've got an aggressive strategy, call it 100% stocks, give or take. We have an income strategy, roughly 20% stocks, 80% bonds, and then you can fill in the gaps between. At its core, we keep it relatively simple. Stocks, bonds, cash. On one hand, just because something worked well for you yesterday doesn't mean it's going to work tomorrow, but these are asset classes that are tried and true. They're very accessible, liquid for us in general for what we're dealing with, but that's kind of where we start.

Now, we have full latitude to invest in anything we want. I mean, we're an independent firm. We make the decisions. We just have to vet the validity of those types of ideas. So in the past, we have made tactical calls to things like precious metals, like gold, infrastructure or real estate as more of a sector play. So we can get pretty creative by tapping into those active trades that JP {John} just described and as long as it makes sense for the environment that we're in. But yeah, relatively simple. Stocks, bonds, cash, and then we have the leeway to make tactical calls on top of that. There's also another lever that we can pull by way of asset allocation, knowing when to go overweight stocks and underweight stocks. Now, this is the one area we do and is a purely data-driven function of our core strategies.

And we lean on a third party research provider, Ned Davis Research, and we look at a model that they produce called the Fab Five. And basically it's just an aggregate of several components that over time it's given you a buy signal and a sell signal. And the way we interpret it is buying the S&P 500 or going into short-term fixed income. And again, nothing's perfect, but it has a tremendous track record. And it's something that I think adds a lot of value for us to take emotion out of the equation for making one of the hardest calls there is to make in investing. And that's knowing when to go overweight stocks or to take risk off the table. But again, nothing's perfect, but it fortunately has been right more often, well more often than it has been wrong.

Michael Bilotta:

So now that we've got the portfolio built, we know how much we want in stocks, bonds, cash. We have the different building blocks in there, whether it be ETFs or actively managed funds or strategies. How do we go about then once we buy into the portfolio, what does the process look like where we're reviewing and monitoring and potentially making changes? John or Andy, do you want to talk about how we do the review and rebalancing process?

John Schlueter:

Something that is very unique to JNBA, something I really haven't heard of in any other firm is a 10-day rebalancing cycle. So if you have your portfolio here with us, we are looking at it once every two weeks. And no matter what's happening in the market, we're going to put a close eye. It might be a two-week cycle where not much has happened. There's not a lot of economic news coming out. Company earnings are pretty quiet. No outsized macroeconomic events. And in that case, your portfolio is probably pretty much intact. If you have some cash needs, we might raise cash for that.

But in an ever-changing environment, it seems like the news cycle is faster than the previous day. I think this cycle of looking at your portfolio every two weeks is more important than ever. We can take advantage of tax loss harvesting if there's a period of weakness. If there's big opportunities of strengths in certain sectors or asset classes, we can sell those and buy something potentially that has underperformed. And hopefully we have some mean reversion between the two asset classes. And in that case, generate some outperformance for your portfolio versus its benchmark. Aside from that, I would say asset allocation in specific accounts is something that's paramount here.

Equities in Roths, fixed income in traditional IRAs, less tax efficient funds such as mutual funds that could kick out capital gain distributions are sheltered in tax efficient accounts. And then the most tax efficient assets we have, like ETFs, are going to be in your taxable accounts. Speaking of taxes, when we're rebalancing your portfolios, we're extremely mindful not to generate extremely large tax bills. If you have monthly distributions, we want to make sure we have cash on hand. That way, if there's a downturn in the market, we're not selling things that have underperformed to fund that monthly distribution for you. I think this process is extremely vital to who we are at JNBA and how we manage your portfolios.

Michael Bilotta:

And I think that's important. I was going to mention it if you didn't, the term asset allocation gets thrown around a lot, but asset location where you put certain types of investments in certain accounts due to their tax efficiency or lack thereof is ultimately done with the goal in mind of giving somebody the best bang for their buck on an after tax basis because of, again, the way that the portfolio was designed and where the assets were located from that perspective. So just a big difference there that provides a lot of value over time, to be honest. And with rebalancing too, just to go back to that for a minute is a lot of question gets, how often should you rebalance your portfolio? Is it once a quarter? Is it once a year? And the bottom line is you rebalance it when it needs it. And how do you know if it needs it or not if it's not being actively looked at? So there too, that frequent review, but not necessarily frequent trading is upholding that side of things too, to understand where the opportunities might exist.

Andy Buccanero:

If I could just chime in with a couple of quick thoughts here. If I were to put myself in the client's seat, knowing that we have, or my financial advisor has a team of people looking at my portfolio every 10 business days, at the very least would give me a lot of peace of mind. Just knowing that someone's paying attention and watching things. And again, to each their own when it comes to the rebalancing process. But if I worked at a firm and we elected to go with quarterly or semi-annually, you're just picking a random day, throwing a dart out there and you hope it works out in your favor and it's a good opportunity to rebalance.

But yeah, I mean, just because we're looking every 10 business days doesn't mean that we're day traders or anything like that by any means. We let the software do the heavy lifting, but there's always some work to be done, cleanup work, if you will, within a portfolio. I mean, you touched on this, but putting cash to work or right sizing the client's mix of asset classes and funds from maybe they transferred in with something that we can't sell and we want to start to work them over towards our model portfolio over time. And that's where you guys on the execution team provide a lot of value. Can you touch on that a little bit more?

John Schlueter:

Yeah. I think one thing we've done a great job of over the last few years is understanding what we own. Whether a fund has a specific style, what group of stocks makes up a specific fund is important when you're dealing with clients that transfer in something or they have some legacy assets that are sitting at an incredibly high gain. When we have our model portfolio, we're not just going to sell out of that fund, generate a huge tax bill just to be in our preferred fund. It's not always that simple. And so with that being the case, we go ahead and offset like funds. They're not going to be perfect one for one. It's going to be impossible. I mean, they're different fund managers, companies, but at the end of the day, we want to have our fund that is most like that be offset in our allocation.

And that doesn't mean that we're not going to work towards putting you in 100% our model portfolio over time, but it's about managing that tax bill over X amount of years. Having one huge bill in one year and putting you in a worse off tax bracket doesn't really make sense. If we can manage it over a longer period of time, put that together with maybe some money you need for something in the future and give us a reason to exit it. I think those things together would give us a better runway to putting you in a model portfolio.

Michael Bilotta:

I think it's important too, when we mention model portfolios, is that it's not a managed fund per se. It's not a, well, if I come out with JNBA, I'm going to be put in their growth fund or their conservative fund or whatever. When we talk model portfolios, that's mainly just a starting point where we talk about the risk return trade-off of what a growth investor might have or an investor that wants more income or somebody in the middle is there needs to be a starting point at which you say the portfolio should be structured in such a way that it should look like this from a risk return trade off. And so I think it's important too, when we talk model portfolios, to just understand that it's not everybody into the same holdings and same strategy, so to speak, necessarily, along with everybody else. So everybody's portfolio is unique from that stretch, but they should be similarly constructed.

John Schlueter:

100%. I think that ties into what I said earlier about everyone's situation is different and unique and we aren't building cookie cutter portfolios. We want to have something that's tailored to our clients.

Michael Bilotta:

If Andy, you want to talk a little bit or John about what the investment committee's role is just to step back a minute again from maybe an individual holding perspective or as we do due diligence, for example, and what we want to put in portfolios. Do we want to keep things in portfolios? Does it make sense to make a change? Those sorts of things. So what role would the investment committee play in those cases?

Andy Buccanero:

Yeah. The investment committee spends a lot of time just making sure we understand what we actually own. If we're owning an ETF or mutual fund, that's a basket of securities. Depending on the objective, it could be trading very frequently. And it's very important for us to keep tabs on that, to make sure like, oh, we though we bought a value fund. We want to make sure it's still a value fund. And they didn't really change things behind the scenes without us knowing that. So every week we're looking at performance. We're reviewing our scorecard, which is just measuring how our active trades are doing relative to the benchmark and just making sure that we're positioned appropriately and really just trying to limit any surprises from that standpoint.

John Schlueter:

Yeah. I think we do a really good job of meeting with our existing managers, asking them the tough questions to make sure that we're still aligned on a long-term basis. A lot of our clients hold legacy individual stock positions. I know we keep tabs on those companies, their earnings calls, any individual news that might generate an outsized performance factor to the upside or the downside. And where it's applicable, recommend a sell or recommend them to do nothing and just continue to hold the stock just based on how it's acting and what type of cycle we're in.

Michael Bilotta:

That's a good point. Sometimes the best thing to do is nothing in those instances. I think when things are chaotic, you feel like action is the best thing. We have to do something. And in some cases that might be true, but in a lot of cases it's not. Sometimes the best thing to do is if you've put the thought in beforehand, then you just stick to the discipline process and maybe not do anything. I think all three of us would agree we could spend all day talking about this stuff because we're very passionate about it. I would even go so far as to say it's our get-up in the morning purpose to come in and carry out this process and why we do it. We help families and institutions and endowments during their accumulation phase. And then also on the other hand, once somebody retires or once things get into distribution mode, it's the opposite.

But in reality, it's the sound strategy, the discipline process, the promise to carry it out at all times. One thing we can't do, we can't promise results, but what we can do is promise the work that goes into it. And so from that standpoint, achieving and maintaining a family's financial independence over time is really what this is all meant to do at the end of the day. And hopefully this has given you a little bit better sense of pulling the curtain back and getting a picture of what the investment committee is and does, the roles that the investment committee plays, how we look at portfolio construction, the goals of maybe different, as we call them, model portfolios.

And then the brass tacks is now where do we go from there? And how do we actively manage and review and maintain that throughout some volatile times? So I think we did a good job of that here today also. But if anybody of course has additional questions or thoughts, certainly feel free to reach out to your JNBA advisory team. If you're not currently working with the JNBA advisory team, please reach out anyways and call our office or email at info@jnba.com. And I know that somebody would be very happy to talk with you. Thank you for watching and have a great rest of your day.

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