CLIENT-CENTERED INVESTING:
Q&A with Ron Albahary, LNWM CIO

RONALD ALBAHARY, CFA®

Ron is LNWM's Chief Investment Officer. He determines investment strategy, security selection, and works with LNWM's advisor teams to deliver investment solutions for each client's unique needs.

For more than 30 years, Ronald G. Albahary, CFA® has managed portfolios for high-net-worth clients and their families, first at major Wall Street firms and then at prominent family offices that he helped become national investment powerhouses. Highly energetic and well-versed in fundamental analysis, Ron has managed more than $170 billion in assets during his career, spanning precipitous and protracted market downturns as well as rip-roaring bull markets. We sat down with Ron to find out what inspires and motivates him as he takes the helm as LNWM CIO.

What attracted you to LNWM and the role of CIO?

RON: It's actually a combination of things, which seldom come together at one firm. First, the culture, values and incredible stability of LNWM, given that its first clients – the Laird Norton families – remain clients (and owners) more than 50 years later. This ensures that despite tremendous growth, the focus will stay on serving our clients at the highest level.

Add to this LNWM CEO Kristen Bauer, with whom I worked as CIO for seven years at a previous firm. Kristen has unparalleled experience working directly with families to help them achieve what is important to them; she has the highest emotional intelligence I have ever encountered.

Finally – and most importantly for me – LNWM's high-quality investment team. They are talented, creative and have built a robust platform of solutions for clients. I look forward to collaborating with them on innovative ways to enable clients to reach their goals.

This rare and powerful combination of factors is the reason I think LNWM is poised to become an increasingly attractive destination for clients and employees in the coming years.

The arc of your career has taken you from major Wall Street firms to smaller companies focused on ultra-high-net-worth clients. Why that progression?

RON: Having started out at the big investment firms, what I've learned is that ultra-high-net-worth individuals, families and foundations are usually better served by smaller, independent RIAs (registered investment advisors). The larger firms tend to be less nimble and adaptive; they're less likely to design creative solutions for the complex planning and investment needs of ultra-high-net-worth individuals and families.

When you're at a larger firm, it's all about scale, operating efficiency and, for public companies, an eye toward maximizing earnings and supporting the stock price versus putting client needs first. I challenge the big firms to deny this: that their ability to serve idiosyncratic client needs is constrained by the desire for scale and the resulting profits.

Has Covid-19 fundamentally changed anything about wealth management, investing and/or what clients want?

RON: While Covid-19 was a health crisis, it highlighted social and racial inequality and environmental vulnerabilities at the same time. Those concerns are not likely to go away. Fiduciaries are beginning to recognize that more clients want to use their portfolios to achieve not only their own financial goals but to impact environmental and societal issues. LNWM has been helping clients do this for nearly 20 years and has continued to thoughtfully and effectively expand its capabilities over time.

With that said, as wealth advisors, our job is to serve ALL clients; meet them where they are and help them achieve their goals — whether they be solely financial and/or non-financial objectives.

Another effect is that for much of the pandemic, we were all tethered to our screens, social media. And I think this has exacerbated the tendency to focus too much on the headlines. All this does is stoke emotional and cognitive biases, often leading to poor investment decisions in the long run.

What do you foresee as the single-biggest financial or investment challenge currently?

RON: Having been in the wealth management business for over 30 years, I can't remember a time without challenges — what fun would that be? But seriously, it's important to recognize that challenges can give rise to opportunities from an investment perspective.

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One major challenge now is calibrating risk at a time of unprecedented fiscal and monetary stimulus around the globe. In 1990, when I was finishing my economics degree at Wharton, I could never have imagined central banks buying billions of dollars of their own government bonds, essentially monetizing the debt. But here we are. Profligate spending by governments without regard to debt levels and the continued reliance on central banks to smooth out any economic hiccup are likely to create challenges for financial markets, although it could take years for problems to manifest.

After more than a decade of risk-on mentality and buying the dip, investors seem to be less sensitive to all forms of investment risk. But even before that — during my entire career actually — most of the investment industry has focused on maximizing returns, with risk being secondary. That's completely upside down. Mathematically, losses are far more damaging to a portfolio than gains are beneficial — the laws of compounding clearly illustrate this. With that said, calibrating risk first doesn't mean risk-averse; it means ensuring clients are taking the risk they need, can tolerate that, and are compensated appropriately for such.

How do you assess clients' risk preferences?

RON: People who have accumulated significant wealth have often gone all-in on a business or some other investment they felt they knew and/or could control and that paid off. Staying in that risk-taking mindset is not unusual; they want higher-risk portfolios. And then you have another group of clients who want to focus on preserving wealth. These are general tendencies that don't actually tell you much about how someone will behave in a market downturn when their wealth is in exposures they can't control.

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Getting at someone's actual risk tolerance requires asking the right questions and also asking the same question in different ways. A client might say they're totally OK if their $10 million portfolio drops 20%. But ask them if they're OK seeing it go down $2 million and you might get a different answer.

To know thyself is actually not easy, especially when it comes to emotional and cognitive biases related to investing. So I'm a firm believer in asking an exhaustive array of questions related to our clients' objectives, needs, biases, aspirations, and fears. We want to have a deep understanding of how a client thinks and what drives their decision-making. Understanding this psychology is paramount to proposing investments that make the most sense for them as opposed to applying an academic approach to portfolio building and financial planning.

Why is diversification necessary when US markets have been leading the world?

RON: Getting wedded to any one exposure, be it to US growth equities or your company stock, can work for a while but ultimately means higher risk and potentially lower return relative to diversifying. Diversification is about applying a full set of strategies that can work in tandem to generate a favorable risk-adjusted return over many market cycles. These days, diversification is actually more important than ever, and it's harder to achieve given the higher correlation among asset classes. It requires exposure to different geographies, capitalizations, sectors, individual securities, factors (value, growth, credit, interest rates, currencies, etc.) via public, and when appropriate, private markets.

What is the connection between investment management and wealth management?

RON: Wealth management is a broad and challenging undertaking, focused on deploying wealth to fulfill needs, goals, as well as aspirations during an entire lifetime and often into the next generations. This of course includes investment management, which aims to preserve and grow wealth by taking on an appropriate level of risk; otherwise, wealth dissipates due to distributions, inflation, taxes, and losses.

As investment professionals at LNWM, we work closely with client advisors, in-house tax specialists, trust administrators and estate planning experts. We are fully aware of the non-investment aspects of clients' finances and their goals/aspirations, allowing us to contribute to finding truly integrated solutions. Having been in the industry for three decades, I've seen thousands of investment advisors attempt to practice wealth management and planning. Ultimately, where most advisors' value proposition breaks down is the actual execution of the plan. And I think this is where LNWM excels

– implementing the many aspects of a comprehensive wealth plan (budgeting, trusts, estate plan, business succession etc.), in alignment with the client's investment portfolio.

Who are your investment heros or mentors?

RON: Many great investors have impacted my investment philosophy, but the one who stands out for me is Richard Thaler, the Noble prize-winning economist and one of the mavens of behavioral finance. I was a portfolio manager working directly with clients when the tech bubble burst more than 20 years ago. At the time, I was managing two portfolios for one of my clients, a retired doctor — one was his retirement portfolio that he was drawing from, the other was a family limited partnership (FLP) for his kids and grandkids.

During the first 30 minutes of our quarterly meeting, he focused on the diminishing value of his retirement portfolio and wanted to reduce equity risk. But during the second half of the meeting, this same person was pounding the table that his FLP needed to take on more risk since it was intended to be very long-term, multi-generational. This was a transformational moment for me as it taught me the power of labeling and bucketing portfolios for different purposes to condition investors to make rational decisions. At the time, I didn't know that Richard Thaler had already come up with the theory of mental accounting. Every investment platform I have designed and constructed for clients since then has been influenced by this concept.

What else did investing through the tech bubble, the 2008 financial crisis and Covid-19 teach you?

RON: One of the benefits of gray hair is having lived through many market cycles generating many, many lessons learned. To name a few in shorthand: Humility; maintaining a steady hand when others are panicking; and exceptional planning that takes into account volatile markets and proactive client communication. It's important to anticipate and answer client questions before they're asked so people know their wealth management team truly cares, is going to shepherd them through the downturn, and is monitoring their portfolio to ensure risks are being managed and opportunities are being seized.

What are you most proud of so far in your career?

RON: I'm most proud of how many of my former teammates — people I had recruited and/or managed — are flourishing in their careers. Few things are more fulfilling than getting unsolicited messages from them as they progress in their careers acknowledging how much I impacted their professional lives; it's inspiring and humbling at the same time. Equally as important, I am proud of the innovative solutions my teams have designed for clients, enabling the latter to live their lives and achieve their goals with the utmost confidence.

ABOUT THE AUTHOR

RONALD G. ALBAHARY, CFA® is Chief Investment Officer at Laird Norton Wealth Management. A 30-year veteran of the wealth and investment management industry, Ron has experience in all aspects of investment management: analysis, strategy, and implementation. Prior to joining LNWM in 2021, Ron served as CIO or CEO of boutique registered investment advisor firms focused on ultra-high-net-worth families and foundations. Earlier in his career, he held leadership positions with notable global private client institutions, including Merrill Lynch and Northern Trust Private Bank. Ron has a degree in economics from the Wharton School at the University of Pennsylvania and is a Chartered Financial Analyst (CFA®). He currently serves as advisor to the Center for High Impact Philanthropy at the University of Pennsylvania.

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