Perspectives on Private Wealth: A Discussion with Jean L. P. Brunel

By Scott Welch, CIMA®
Perspectives on Private Wealth

A DISCUSSION WITH JEAN L. P. BRUNEL

By Scott Welch, CIMA®

Jean L. P. Brunel, CFA®, and his firm, Brunel Associates, offer wealth education and analysis for wealthy families. He capitalizes on more than 40 years of experience that has focused on tax-aware investing, goals-based wealth management, and the role of alternative assets in balanced portfolios. Brunel previously was chief investment officer with JP Morgan’s global private bank, Private Asset Management at US Bancorp, and GenSpring Family Offices. In 2015, he received the inaugural IWI J. Richard Joyner Wealth Management Impact Award.

Scott D. Welch, CIMA®, is chief investment officer-model portfolios at WisdomTree Asset Management. He is a member of the Investments & Wealth Institute board of directors and the Investments & Wealth Monitor editorial advisory board.

Welch: Thank you for agreeing to speak with us, Jean. It is always a pleasure, and we would feel remiss if we didn’t get your thoughts on what’s going on in private wealth today. You’ve had a tremendously successful career in wealth management, you remain the co-editor of the Journal of Wealth Management, and you are, of course, the author of two of the seminal reference books in our industry, Goals-Based Wealth Management and Integrated Wealth Management: The New Direction for Portfolio Managers. Please catch us up on what you are up to these days. I’m assuming you remain active with the wealthy families, as you always say, “you are privileged to serve.”

Brunel: Our wealth management consulting business continues although we are gradually reducing our activity, which has principally meant not working to replace clients who no longer need our services.

Welch: What is on the minds of wealthy families these days? What are their concerns and where do they see the most opportunity? How are they allocating their portfolios?

Brunel: It seems as if they are caught in a bit of a bind. On the one hand, most have adopted quite long-term policies with a view to serving, for one of them, a minimum of six further generations. At the same time, the illiquidity they have accepted has produced outsize returns for them, though it has in fact compounded the initial illiquidity of their portfolios. Combined with the fact that unrealized gains have mounted in the public portfolio, they now feel that any move will be costly. Yet, they agree that we have seen a momentous change at the Fed; it has moved from quantitative easing to quantitative tightening, from a loose reliance on data for policy setting to a data-guided policy (therefore backward-looking), and from providing an implicit equity market put to seeming indifferent as to where equity prices go. This is causing a lot of head scratching, all the more so because concerns about geopolitics have moved from peripheral to front and center.

Welch: Is there any consensus with the families you serve on environmental, social, or governance (ESG) investing or digital assets? How important are these ideas to how your families are investing?

Brunel: There is no rule I can discern, probably because our sample is quite small and likely not representative. Yet, within that limited scope, you have the full spectrum, from fully ESG and digital, to eschewing them both. I am seeing more literature arguing that ESG may not produce the alpha that was (wrongly in my view) promised. I feel and argue to them that ESG is not a case of a rational investment decision and more of a personal moral perspective. Digital assets have raised more of a love or hate reaction. Some swear by them, while others stay away from them.

Welch: We’ve had some pretty remarkable returns in the capital markets over the past few years, though we may be giving some of that back now. Given that many of your families hold taxable wealth, I would think that rebalancing the portfolio and tax management of that rebalancing would be a top-of-mind issue. What are you telling them?

Brunel: It is a top-of-mind issue, though one that is not easy to implement. Other than systematic loss harvesting, which became a rarely valuable strategy after so many years of bull markets but may offer opportunities now, many are left having to view
accepting some capital gains tax as being like the cost of insurance. Though insurance is much too strong and therefore an inappropriate word, the concept is that diversification remains their best long-term risk management tool. That this may impose the pain of taking certain gains is accepted as inevitable.

Welch: If I am correct, I would guess many of your families hold private or illiquid investments. How does that factor into the overall asset allocation process? Specifically, and this is something I always like to ask, how do they fund those positions?

Brunel: For those clients who use them, they are privileged to be in a self-funding mode. The allocation to them ranges from a low of 20 percent to a high of 60 percent, this latter being in a family whose assets are very large and who consumes (including charitable giving) less than 1 percent of the wealth annually. The most challenging question at present is more about how to maintain relationships with the best managers when they, the families, are trying to cut back on their past performance-driven overpricing. They know that they need to re-up with their best managers but are confronted with (a) the fact that managers launch new funds much more quickly, (b) a perception that valuations are stretched in many places, and (c) their need to take some cash out of the sector. Many are currently using the excess of distribution over annual commitments to rebalance portfolios toward higher liquidity.

Welch: Given the work you’ve done on goals-based investing and integrated wealth management, please share with us your current best thinking on these topics. How has either your thinking or the state of the industry evolved since you wrote your books?

Brunel: I am still as convinced as ever that goals-based investing has to be a part of the answer. I have observed families create variants over time which, though not strictly in line with the full concept, are effectively applying the principles to achieve their goals. A family, for instance, is sold on the concept of “a bucket per goal,” but instead of investing each goal in some form of a balanced portfolio with more or less risk, has in fact adopted an approach that focuses on four individual investment strategies, besides their cash reserve holdings: (a) expense defasance over the next five years, (b) inflation protection for that portion of the portfolio, (c) capital preservation comprising both expenses for years six to 10 and provisions against events that will happen and cost money but with no real sense of timing (estate taxes in particular), which comprises fixed income, inflation-protecting assets, and modest protection against dollar weakness, and (d) long-term growth, which is split into public and illiquid markets.

I welcome the move because the whole effort was meant to marry clients to their assets, recognizing that they have multiple goals, multiple time horizons, and multiple sensitivities to missing a goal. Once that is done and the buckets are appropriately sized, the way the family allocates assets within the buckets is considerably less important in my view.

The leading edge for me is work being carried out on the role of insurance products in such an allocation to deal with longevity risk in the expense defasance portfolio when the risk exists that assets could otherwise run out or the need for what would appear to be an excessively conservative policy looms.

Welch: Perhaps this is a slight side-bar question, but where does the research seem to be focusing these days in the articles submitted to the Journal of Wealth Management? Are people continuing to try to push new boundaries, expand on existing ones, or, perhaps, given the increasing complexity of asset classes and strategies, even challenge accepted industry standards (e.g., modern portfolio theory, mean-variance optimization, the notion of asset allocation to begin with, etc.)?

Brunel: Tough question as we are going through a mild editorial change. We have decided to focus more on pure wealth management issues, leaving aside all but the most critical highly specific considerations. Yet, we see a lot of interest in tax awareness, a lot more than in the past, as well as more interest in leading-edge planning issues, focusing on the need to integrate the various dimensions of wealth management.

Welch: As you look into the future, what do you see for the wealth management industry? Specifically, what do you believe will represent best practices, from both an investment and client-service perspective?

Brunel: I do not have a broad enough clientele to offer insightful comments. I sense that the focus on advising clients in a holistic manner is gradually taking over what one might call pure product sale or structuring. Within my limited universe, where asset totals always exceed $100 million and run into the billions, I have seen increasing caution with the least tax-efficient and most costly alternative strategies. In fact, I am concerned that the process has run too far too fast, in the sense that many of these alternative strategies may be most useful and rewarding when traditional long-only markets do not move up unidirectionally. Add to this the relative propensity for illiquid investments (could this be related to their stellar recent performance?) and I worry that some thoughtful rebalancing may be needed.

Welch: You’ve been very generous with your time and on behalf of the Investments & Wealth Monitor I’d like to thank you, as always, for sharing your expertise. As one last question, is there anything we haven’t asked about that you want to mention or discuss—any final words of wisdom?

Continued on page 18 →
Brunel: My main issue returns to what I see as a bit of a current disease, although it developed through time: the replacement of facts by narratives. Whether due to the social network concept or simply to the fear caused by the huge amount of data available, I have seen themes develop that at the time made relatively little sense, confusing hope and reality. In fact, I have several times seen assertions that were simply claiming incorrect facts. Yet I have found my own client interaction made more difficult as, in particular but not solely, the younger generations seem to be missing both some of the software to process facts and most of the data representing facts. I believe that it makes the task of family offices ever more complex and difficult as they must (a) convey opinions and explain actions that conflict with several of the currently prevalent opinions and (b) try to provide education in an environment where they must walk a very tight line between educating and not attacking current wisdom. I view this as all the more important because my own view is that we have spent the past decade or more experimenting with theories and strategies many of which seem to me to have flaws, a few quite deep, others thankfully less so.

Contact Jean Brunel at jean@brunelassociates.com.

Contact Scott Welch at swelch@wisdomtree.com.