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Wealth Management For Mid-Level Partners

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This is the second article in a three-part series exploring wealth management issues for law firm attorneys. Last week, investment adviser and recovering attorney Stuart Riemer shared wealth management insight for new law firm partners. Here, Riemer addresses mid-level partners.

Stuart Riemer

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At this "mid-level" stage in your career, you are either a contract/non-equity partner or an equity owner in your firm. In either instance, as your disposable income continues to grow, it is critically important to have, at the very least, a fundamental understanding of the often complex issues pertaining to the proper allocation of your investable assets.

The Big Question

You are running a business, your clients are very demanding, and the constraints you might be operating under day after day can be overwhelming. Quite simply, you may not have the time to think about how your retirement accounts are invested, and whether your asset allocation continues to support the objectives you and your financial adviser established, perhaps years ago, for the remainder of your balance sheet.

At this stage, many partners also are contemplating whether to stay with their current law firm (or any law firm) for the remainder of their careers. They may be considering other opportunities and, for these mid-level partners, their investment portfolios could provide crucial support in the event there is any sort of a transitionary period.

Relatedly, there are attorneys who haven't been working with a professional financial adviser, and have chosen to let their investable assets accumulate "for the time being."

So, if you fall into one of these categories — too busy, contemplating a new firm or a career change, have yet to avail yourself of professional counsel — and are open to a few salient thoughts on the subject of asset allocation, read on.

It's Your Money

If you have been remiss in any respect with regard to how your wealth is being managed, righting that wrong is analogous to conducting "discovery" or "due diligence." Our intent here is to provide you with sufficient information about various options to enable you to ask the right kinds of questions when you meet with your financial adviser (or are interviewing a prospective adviser).

We are assuming the current or prospective adviser has or will have sufficient details relating to your balance sheet, your insurance policies, and your estate plan. We are further assuming you have discussed or will be discussing your short- and long-term financial objectives as well as your tolerance for risk, and how your tolerance relates to pursuing those objectives.

Asset Allocation 101

Although there are exceptions, a properly balanced portfolio typically includes positions in equities and other asset classes that could be less correlated to the equity markets, such as fixed income, real estate, private equity and absolute return strategies.

When developing or refining your asset allocation, consider your needs for immediate access to liquidity and whether hedge funds or limited partnerships may be appropriate for your portfolio.

Here are several allocation issues worth noting.

Fixed Income/Firm Capital: When considering how much fixed income is appropriate within your allocation, don't lose sight of your firm capital since firm capital essentially is a zero-coupon bond highly concentrated in a single issuer, namely your firm.

Asymmetric Returns: When you build a portfolio that includes specialty managers who "stick to their knitting," the broader decisions your financial adviser makes on where or where not to invest should impact your portfolio's risk-adjusted, long-term return profile. The primary advantage here is higher and fewer negative returns.

"Livelihood Risk:" Depending on your practice area, you may be well advised to be especially aware of any "livelihood risk" reflected in your portfolio. To cite one such example, capital markets attorneys whose job security may be directly correlated to market risk should consider a slight increase in their less market-related allocation.

Hedge Funds: There are thousands of hedge funds available to investors who meet the minimum net worth and/or accreditation standards set by the fund manager. Focus on managers with long-term track records of providing strong risk-adjusted returns and downside protection during periods of high volatility in the equity markets.

These are attributes you should discuss with your financial adviser.

At the same time, be aware that hedge funds represent limited liquidity, a general lack of transparency and, often, exorbitant fees. So, if all you stand to gain with a certain fund is essentially a leveraged equity strategy that is marketed as providing downside protection — meaning the manager doesn't actually hedge — there is less incentive to deal with lockups and elevated fees.

Structured Notes: These are market-linked securities generally issued as unsecured notes with a specific maturity date, and a rate of return based on one or a blend of market indices. For example, a bank may create a promissory note (meaning they are the credit/issuer of the security — be very aware of this) that links itself to the performance of the S&P 500. However, the upside is generally capped in return for downside protection, often with illiquid trading markets and wide price spreads.

Before investing in these securities, give serious consideration to the terms, limited secondary market liquidity, and the very important fact that you likely will not receive any dividends generated by the underlying index as you would have, had you simply bought the ETF (Exchange Traded Fund).

Private Equity: Very broadly, private equity is an asset class that may require very long time horizons to unlock value in an underlying business or asset that isn't publicly traded on a stock exchange.

Whether or not you should participate is highly situational and, depending on the opportunity, may take five to 10 or more years to mature. You typically will be required to fund periodic capital calls for these investments and likely receive periodic disbursements as each underlying investment matures, making for a somewhat complex investment.

Each of these private equity investments may be opaque, have expensive fees and provide limited liquidity terms, but they can also act as additional shock absorbers for your portfolio during periods of heightened volatility and add real value to your bottom line.

Thoughtful Approach

In any event, you are at the point in your career where you have built a sophisticated practice in a complex world. Your asset allocation should reflect the same thoughtful approach so you will be able to rationally meet your short- and long-term objectives with respect to the capital available to you in your investment portfolio.

—By Stuart Riemer, Treasury Partners

Part 3 of this series, "Wealth Management For Senior Attorneys," will publish on March 16.

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