

1 ( Special focus: The marketing issue )

# boomer™

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## Portfolio alternatives

Tom Zanecchia's unique strategy  
fuels his stellar success in the  
alternative investment space

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# The money management alternative

Attend any fund industry event and a panel on alternative investments will invariably appear. Whether it's managed options, hedge funds, separately managed accounts or a host of others, advisors are scrambling to find the sexy new thing to offer their high-net-worth clients.

Unfortunately, sexy too often means volatile.

Tom Zanicchia, president of Denver-based Wealth Management Consultants and co-owner of Branzan Investment Advisors, takes a more measured approach. Although he places a good deal of his clients' money in the alternative realm, "We're not a hedge fund. We don't use leverage. We don't use derivatives of any kind." >>

INTERVIEW BY JOHN SULLIVAN  
PHOTOGRAPHY BY DON CUDNEY



His approach could be called an alternate alternative investing strategy, and it's paying off. Every dollar invested in May 2002 was worth \$2.26 at the end of June 2006, a 23 percent annualized return. But despite this stratospheric performance, he continues to emphasize a more realistic — and responsible — rate of return with his clients.

"Our goal is to target an 8 percent to 10 percent return with very low variability," he says. "I keep telling our investors, 'Hey guys, we're getting lucky here. But don't get used to this. Our day's going to come.'"

After attending the University of Virginia and completing his graduate work at Wharton, Zanicchia spent 12 years with Asset Management Group (now AMG National Trust) creating the company's wealth management division. In 1993, he decided to strike out on his own.

"I figured if I didn't do it then, I would never do it."

Zanicchia sat down with *Boomer Market Advisor* to discuss his alternative investment strategy, his firm's unique structure and the wealth transfer crisis that's fast approaching.

**Boomer Market Advisor: You've got your hand in a number of different business entities; president of one, co-owner of another. They're separate, but related. Why structure it this way? Why not just put them all under the same roof and offer a comprehensive service?**

**Tom Zanicchia:** Personally, I would love to do that, except that my partner would get diluted in terms of a 50-50 ownership in Branzan. And Branzan has turned out to be a fund that deals predominantly with alternative investments. I started the other firm, Wealth Management Consultants, in 1993. My practice is focused on high-net-worth clients, be they corporate executives or family business owners.

**BMA: How do you define high-net-worth clients?**

**TZ:** My average client size, in terms of investment assets, is \$30 million. That's an average. My range on the low side is maybe \$5 million; on the high side \$100 million. Now, we may not manage all of that money,



but we're clearly doing all the asset allocation work and the overall strategy on the investments. But we may place some with other managers and then monitor it from there.

**BMA: What are you responsible for in terms of assets under management?**

**TZ:** That's tough. I own 100 percent of Wealth Management Consultants. Wealth Management is primarily a consulting firm, which means about 70 percent of our revenues are on an hourly or annual retainer basis. Many end up going into an hourly situation. The other 30 percent is in assets under management. Right now, I'd say that we actively manage about \$100 million to \$150 million. However, I'm also involved in Branzan Investment Advisors. My partner, John Brant, and I have known each other from the day I walked into Denver 25 years ago and we jointly manage another \$100 million

**BMA: How did that relationship come about?**

**TZ:** We had a mutual client that was a family business owner. She sold her interest in a family business in 1993 and asked John and I to be co-trustee of her trust with probably \$35 million at the time.

**BMA: And a light bulb went off?**

**TZ:** Not so much a light bulb, but after about

three or four years of managing it, we started getting involved in unusual investments. Initially it was secondary market partnerships. These were publicly traded partnerships that you saw in the early 1980s that were tax shelter deals that really had no economics to them. But if they did have economics to them, you didn't see them for 20 years down the road. Well, guess what? We were 20 years down the road. We were buying them through exchanges that dealt in secondary market partnerships. And our performance was pretty darned good. So we started looking at other investments that were long and unusual. This led us to start saying, "Gee, we're doing a pretty good job of this. Maybe we ought to take this out to something other than trusts." In 2002 we put together a partnership to invest energy, gas and other commodities. We raised \$3.5 million in about three months. We sat there and said, "\$3.5 million bucks, is it really worth our time?" But our feeling was that if we didn't do it then, we'd never do it.

**BMA: How did you charge?**

**TZ:** We charged a straight management fee. Our goal was to target an 8 percent to 10 percent return with very low variability. So, we went off and created a fund. It invests in what we refer to as alternative investments. We're not a hedge fund. We don't use leverage. We don't use derivatives of any kind. >>

**BMA: What kind of returns are you seeing?**

**TZ:** Every dollar that was invested in May 2002 was worth \$2.26 at the end of June 2006.

**BMA: Heck of a return. Is it something you think you can maintain?**

**TZ:** Look; our target was 8 percent to 10 percent. I think we've been very lucky. We've been in assets that we thought would benefit from rising interest rates. We still think there's a lot of inflationary pressure in the United States and that, long-term, commodity-based investments are going to be pretty good. We were buying commodities long before everybody else was interested. We've been doing it since 1995 and we've had a nice run. We think that long-term, commodity-based product supply won't keep up with demand. So will it be volatile in the short-term? Yeah. But we think we're going to have one heck of a long-term return.

**BMA: Are you going to maintain the expectation of 8 percent to 10 percent?**

**TZ:** We keep telling our clients that every quarter. For the first quarter of 2006 we were up 8 percent. We keep telling them, "Hey guys, we're still lucky here. Don't get used to this. Our day's going to come."

**BMA: Under-promise and over-perform?**

**TZ:** We're going to have a down quarter and you've got to be prepared for that, but again, long term, we still think we're going to do okay. So, that's how I ended up in two different companies, but the philosophy is still the same. We're trying to manage our clients' expectations, trying to achieve a good long-term rate of return while minimizing as much of the risk as we possibly can. That's the philosophy in both firms.

**BMA: You've got the expertise, yet you don't employ a hedging strategy. Why not? Why not take 20 percent off the top?**

**TZ:** In hindsight, I would have loved to take 20 percent off the top — yeah, absolutely. But when we first started this 8 percent to 10 percent thing, our manage-



ment fee was 1.5 percent. So you're looking at a 9.5 percent to 11.5 percent return that we have to produce. I think that's pretty aggressive in light of the investment environment we expected. We've done very well, but you're looking at 9.5 percent to 11.5 percent before fees and then you're going to take 20 percent of the excess? All of a sudden we're making a lot of money, but the investors are not. We just looked at a deal today for a client where the gross returns on this hedge fund is something like 20 percent. But net-of-fees to the client, the return is 7.5 percent. I'm looking at that as an investor and saying, "Why would I want to put my money in that? All I'm doing is mak-

ing somebody else rich." Our goal is that if we can continue to deliver good returns to our investors, they're going to continue to invest with us and give us more money.

**BMA: What about the technology you employ in your office? With the amount of money you're talking about, is it very cutting edge?**

**TZ:** Because of the level that we're dealing with, we're doing a lot of customization. Every client that we're dealing with may want to see things differently. We try to be as cutting edge as possible, but when it comes down to how we're presenting to the client, it's what the client wants. >>

**BMA:** They're paying you enough so you'll go ahead and paste it into a Word document if they ask you to.

**TZ:** Exactly.

**BMA:** What are you looking at in terms of your office size and structure over the next three to five years?

**TZ:** Oh boy ... double. We are only constrained by the level of quality people we can find. But you know that's not just our problem, that's a problem for everybody. We can grow as fast as we want to because we provide a level of detail and service that not many others can. We've grown at a rate of about 27 percent since 1993 through the end of 2005. To give you an idea, I worked 3,800 hours last year. And I don't want to do that again. So, we're in the market for people. Generally speaking, you can find good tax people, good attorneys on the estate side, good investment managers, but you can't find a good all-around generalist; somebody with enough personality to deal with clients and handle the psychological side of it.

**BMA:** Do you think you'll look to some of the wirehouse people?

**TZ:** We already have and I've been disappointed in the quality of the people that come out of there.

**BMA:** Even with the so-called super brokers?

**TZ:** Yeah. They can handle the investment side, but we're in wealth management, and investment management is only a subset of that. You need somebody that can handle the other areas as well. They're just not there. The best places for recruiting have been in trust companies. We think the trust company tends to provide better overall service than brokerage firms.

**BMA:** We were speaking with the president of a well-known broker/dealer, and he's very worried about where he's going to find the next generation of quality reps and advisors. It seems everyone, regardless of where you reside in the business, is really worried about that.

**TZ:** Yeah, I agree. I got an email today out of the blue basically saying, "Hey, we've got a

job opportunity here at TIAA-CREF. Do you know anybody?" I responded, "No, but if you find somebody, would you let me know?"

**BMA:** We've talked with other cover subjects who deal with super high-net-worth clients. Their baby boomer clients are dealing with a lot of the same issues that other boomers with \$500,000 in a retirement account are dealing with. Do you find that to be the case? Is there a potential for them to lose a substantial amount of their net worth because they don't know how to efficiently distribute their assets?

**TZ:** Absolutely. One of the things I've noticed in the boomer generation is that a lot of individuals have over-spent over the years. Now they're looking forward to retirement. They'll sit down with you and they'll say, "Gee, I want to have a house in France. I want to be able to live on \$10,000 a month." Okay, let me see what they've saved. And they have a retirement plan of maybe \$200,000. How are they going to do that? And you'd be surprised that even with substantial net worth, the issue is still the same. You have to manage expectations about what it is they can afford to do in retirement and when they're going to be able to retire. In all the previous generations in this country, typically the next generation has done better than the older generation. This may be the first generation that does not do as well as the previous one. The only reason I say that is because I notice little statistics. For example, there's a statistic that one-third of all males in the United States under the age of 30 are still living at home and cannot support themselves independently.

**BMA:** But didn't we know this would happen — that the standard of wealth and the standard of living in this country would eventually reach critical mass?

**TZ:** Perhaps, but I'm concerned about the society as a whole. The family is really a microcosm of society. You can read a lot of information about how democratic societies don't last very long. As soon as the people figure out that they can vote the money out of the coffers, they do it. When you're dealing with these families, generally speaking,

you have a senior generation that may create and accumulate a great amount of wealth. They take this wealth and give it to somebody like me because they may not trust their family to use it wisely. What we do is earn a nice, healthy rate of return. Maybe after tax you might be able to earn 6 or 7 percent long term. Well, if the family has two children, who have two children, who then each have two children, you need a much bigger pot to keep the purchasing power the same. Because of estate taxes and inflation, you need to earn, roughly speaking, a 9 percent after-tax rate of return just to keep the purchasing power of the principal whole. I don't think there are many money managers that can achieve that kind of return, let alone guarantee it.

**BMA:** So what do we do?

**TZ:** When you have wealth passing from one generation to the next, and you want the wealth to keep growing, you've got to help the next generation start new businesses. There are only three places where significant wealth is created. No.1 is in real estate and natural resources, No.2 is basically stealing it and No.3 is by creating your own business. All of us [advisors] out here are just custodians until the wealth runs out because the family members are consumers versus producers. A lot of what I'm doing in the next generation is figuring out how to motivate them to produce. How do you train the next generation to have the necessary passion to be successful business people? That's where I think the next great focus is going to be in passing wealth from one generation to the next. And right now, it isn't. **B**



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For more information on alternative investment strategies, visit "Hedge funds: How to determine the right path for your clients" and "Future plans: Are managed futures right for the boomer portfolio?" at [www.boomermarketadvisor.com](http://www.boomermarketadvisor.com).