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Matthew Gaude

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Goodbye, status quo

Delivering the risk management that investors want requires new strategies that can respond to changing markets

By David Wismer

Photography by Chris Hamilton

Matthew Gaude 1

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Matthew Gaude is a Registered Financial Advisor with FSC Securities in Atlanta, GA and co-president of Clarus Financial Group. Mr. Gaude is deeply involved with setting Clarus Financial Group's investment policy, formulating investment strategies, and conducting due diligence on money managers.

Mr. Gaude started his professional career as a commodities broker and then worked with independent financial advisors as a business development manager in the Mid-Atlantic region for a national broker-dealer.

He is an avid student of the markets and global economic conditions and says, "It is equally important to preserve wealth as it is to grow it. Managing risk is a prime mission for our clients in a world that has many unstable factors and the possibility of domestic and global economic turmoil more often than anyone would like to see."

Mr. Gaude is a native of the Knoxville, TN area and attended the University of Tennessee, Knoxville. He graduated with a B.S. in Finance and credits a college internship with a major financial services firm as "motivating me to pursue a career in the industry." He currently resides in Cumming, GA with his wife, Cyndee, and sons, Miles & Gavin. His family stays very busy with youth baseball and they also enjoy swimming, fishing, and tubing at Lake Lanier.

The old investment pie chart is no longer a good tool for planning or implementing investment strategy

Proactive Advisor Magazine: Matthew, what have you taken from your different roles in the business?

Starting out as a commodities broker for about four years taught me the supply and demand equation of the markets. It is a challenging side of the business and one where you constantly have to be aware of risk, a lesson important for any role in this industry.

On the broker-dealer side, I was working with advisors across the Mid-Atlantic region. I was a supervisor, helping advisors in all aspects of their business, including marketing, recruiting, and managing human capital. I worked with about 50 different advisors on best practices for their client relationships and implementing a sound investment methodology for client money: What part of the investment process did they feel they could handle themselves and when would they think it appropriate to outsource to a third-party money manager? I acquired some valuable insights on that process and also what types of investment strategies worked well in different market environments.

How did you approach the investigation of third-party money managers?

It really started with the mindset of a particular advisor: Were they were more of a static asset allocator or were they more active or tactical in the methodology that they wanted to employ with their clients. We would point them in the right direction or bring them a handful of different managers to choose from. They could then dig down deep, do their own due diligence, and determine which manager, or maybe multiple managers, would be best suited for their methodology and their clients.

What about your own investment philosophy?

We have an article on our website that is titled, "The status quo no longer works," and I firmly believe that. When the economy went into recession and the market dropped in 2008, it became clear that what used to work does not work anymore. New strategies were not only needed to help clients in preserving what they have, but also to help grow their wealth. These two things can be achieved in combination, unlike what many advisors have thought for the past 30 or so years.

Research shows that more people approaching retirement want peace of mind than they do accumulating as much wealth as possible, or beating the market. This is what we also see with our client base. It is not all about trying to get the highest returns; it is about risk management, preserving assets, and having more modest and consistent long-term financial strategies.

We believe that active investment management can really pay dividends for our clients. The purpose of active management is to help reduce risk to a level where a client can stay with their investment plan with a relatively high degree of confidence. We know from investor behavior research, such as DALBAR, all of the behavioral issues that can get in the way of investors being successful.

Active management helps in that process—versus a passive approach where clients might literally not have the time, and often not the patience, to wait years and years for investments to recover from the steep losses of bear markets. One of the biggest things that we can help them with is managing their emotions. We want to see that they participate in market increases, but at the same time are trying to make sure that they're taking the level of appropriate risk to be able to achieve that.

How do you work with third-party money managers?

My partner and I are hands-on in formulating investment strategies that meet client needs and are constantly attuned to what is happening in the investment environment. For example, for many of the clients that we work with in consultative fashion on their 401(k) plans, we develop and send out a quarterly video that gets very granular on current economic and market conditions.

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We are also very involved in conducting due diligence on money managers that we think can add appropriate value for our clients. We focus on those third-party money managers that have the same basic investment philosophy that we have. They are very sophisticated by nature, but that plays out in a practical, commonsense approach: If the market situation arises where they need to raise cash, they're going to raise cash. They're not going to stay in the markets just because they have a charter that says they have to.

In planning for the next inevitable bear market, we have found that it is critical to understand the money managers' sell strategies, not just their buying parameters. They need to be able to employ their models to identify what the prevailing trends are today, and to also be very adaptive as the trends may change tomorrow.

The old investment pie chart is no longer a good tool for planning or implementing investment strategy. In a general sense, we are believers in a core and satellite approach, employing some more traditional passive strategies, while also using active and tactical managers in their areas of specific expertise.

In our opinion, clients can have the best of both worlds where part of a portfolio is in a core that will take advantage of the broad increases in the markets and then take advantage of those sectors of the market that are trending significantly higher, or cutting exposure to sectors that are performing poorly.

The difference in our approach is that every part of the portfolio is managed with an eye to risk. We can cut exposure levels throughout the portfolio if market conditions call for that. The real key is setting shared expectations with clients so they understand upfront how we are going to formulate an investment plan that can help them meet their broad financial goals. We explain our total wealth management process thoroughly, and maintain consistent communications with our clients according to their wants and needs. It is very gratifying that they are comfortable with our approach and the relationship. pro

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