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Cool Logic, Warm Intent

By Kate Stalter

Jonathan Satovsky pairs rigorous modeling with noble ideals for the benefit of his clients.

Statistics, calculus, and logic were Jonathan Satovsky's best subjects in college. This suggests that the New York-based advisor is driven by pure left-brain data analysis—but that would be wrong. Instead, he says he's driven by a desire to help clients live secure, happier lives—and he uses his left-brain skills in service of that.

Satovsky's key goal is to manage assets so clients have sufficient income to allow a spending rate between 3% and 5% of their portfolio value. Satovsky recommends that clients view themselves similarly to university endowments, which maintain relatively low spending levels. That means avoiding extra risk that they may not be comfortable with. "If you're targeting a 3% spend rate, or 6% after taxes, that's not exorbitant, and you don't have to shoot for home runs. You can shoot for singles and doubles and maintain a moderate portfolio," he says.

One Head, Lots of Hats

He founded Satovsky Asset Management, which has $380 million under management, in 2007. By then, he'd spent 14 years as one of the nation's top Ameriprise advisors. He recalls being intrigued when he first learned about the concept of financial advising in the early 1990s.

"As people accrued wealth and became successful, they typically had an accountant, an attorney, a stock broker, an insurance agent, portfolio manager, mortgage broker—six or seven professionals who all might have been quite competent, but no one is speaking to each other," he says.

Unifying the various aspects of financial management appealed to him, and he set out to become a resource to his family, friends, and future clients. He does extensive research into market performance, works to educate himself and his clients on salient financial concepts, and makes sure to offer his clients the emotional support that often goes along with financial decision-making. He makes use of tools and research from a wide range of sources. He relies on Morningstar Office to give clients snapshots of their holdings that he manages, as well as their outside investments, such as 401(k)s and education-savings plans. He also uses Morningstar Direct, a platform that aggregates data sources so institutional users can do research and due diligence. He uses the Morningstar data to track money flows in various asset classes. Satovsky's extensive data analysis is central to making determinations about asset allocation to match an individual's risk tolerance.

He aims to build long-term relationships with clients, and a first step is educating them about market risk and volatility. He likes to illustrate how even the best assumptions can go awry. "We can collectively agree that something might be the best approach in the world. But when we come back from lunch, the world has changed," he says.

Geopolitical events or sudden shifts in market conditions can quickly change the volatility of a particular asset or mix of assets, he cautions. By outlining the specific risks of an investment, Satovsky hopes to steer clients toward vehicles that are appropriate for their risk tolerance.

"If someone targets a return of 6% a year, and then they take a low-volatility approach to getting that 6%, they're much more likely to reach their goals than the person who targets 8% but can't handle the volatility," he says.

Purposeful Portfolios

To construct a client portfolio, Satovsky begins with models from Morningstar, Goldman Sachs, JP Morgan, and others. He wants to see what kind of results a client would get by investing more conservatively or more aggressively. Through back-testing and applying additional parameters, Satovsky develops a set of expectations for the performance and volatility of a particular asset mix. Depending on an investor's needs, that mix could include exposure to cash, fixed income, domestic and foreign equities, and alternatives.

Jonathan Satovsky, chairman and CEO, Satovsky Asset Management

How he caught our eye: He combines rigorous modeling with deep client relationships.

Career path: Founded Satovsky Asset Management in 2007 after working as an advisor with Ameriprise from 1994 to 2007. He earned the designation of Certified Financial Planner in 1996, Chartered Financial Consultant in 2005, and Certified Investment Management Analyst in 2006.

Personal: Married, with three children, ages 11, 8, and 3.

Favorite funds: IVA Worldwide IVWIX, Oakmark Equity & Income OAKBX, Fairholme FAIRX, FPA Crescent FPACX, Wasatch Global Opportunities WAGOX, Metropolitan West Total Return Bond MWTIX, Oppenheimer International Bond OIBYX, Fidelity Intermediate Municipal Income FLTMX.

Funds he uses frequently include IVA Worldwide IVWIX, managed by Charles de Lardemelle and Charles de Vaulx. Satovsky considers it one of the core holdings appropriate for clients of all ages. It's mainly an equity fund, but Satovsky likes its ability to go on the defense when market conditions require. He also uses Oakmark Equity & Income OAKBX, which provides equity investors with some cushion through its use of bonds. FPA Crescent FPACX is another frequent choice.

"Those three funds have central core approaches that are appropriate for many investors," he says. "But I think people would get bored with that—it's not sexy. Meanwhile, they'd probably accomplish their goals pretty efficiently."

For more-aggressive investors, he again turns to Morningstar's tools to ascertain best methods for ramping up alpha or beta. One vehicle he's begun using is Wasatch Global Opportunities WAGOX, a micro-cap fund managed by Robert Gardiner.

Though Satovsky is confident about the returns that Gardiner can deliver for investors, he realizes that the volatility of global micro-caps doesn't always make for a good fit. "So I need to curtail the exposure to these alpha-generating strategies to something more limited, maybe somewhere between 0% and 15% of a client portfolio," he says.

Where's the Money?

Tracking money flows is another component of his investing philosophy. He follows the sentiment surveys published by the American Association of Individual Investors and uses Morningstar tools to aggregate data on various asset classes, including foreign equities, emerging markets, municipal bonds, hedge funds, government bonds, gold, real estate, commodities, and international bonds.

But he cautions about relying too heavily on this data, because many investors will think that they need to jump into whatever strategy has been working most recently. He views his task as managing a portfolio for a client's lifetime, not the next six months. A blend of approaches and asset classes can smooth risk and volatility over the long haul.

The Reality of Risk

The idea of managing risk brings Satovsky back to understanding a client's unique goals and situation and making sure clients understand the objectives of their investments.

"The clients I work with are friends and family and people I really care about," he says. "So I want them to be happy and successful and sane." In other words, he is cognizant of people's reaction to risk, especially when it comes to bear markets, such as the ones he experienced in 1998, 2000 through 2002, and again from late 2007 through early 2009.

"Because even though someone is planning for a 20-year time frame, the reality is: Your needs come up, from a planning perspective, at inopportune points in time," he says.

An advisor errs, he believes, by leaving a client in a portfolio with too much volatility.

"There are thousands of exogenous events that are going to impact the world tomorrow," he says. "And nobody knows what those are going to be. Most people can't plan for the unknown, unexpected things that are going to happen. We can't isolate someone from the contingencies that may arise, but my goal is to smooth things out for my clients."

Kate Stalter is a columnist for RealMoney at TheStreet.com and editor-at-large for StockChartReader.com.

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