Investing Like the Super Rich

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How does your portfolio allocation compare with that of the super rich?

Do the super rich invest differently? Do they make smarter decisions, hire better advisors?

A recent study, How the Rich Play the Market, looked at the portfolios and investment decisions of several hundred of the wealthiest families in the U.S. The researchers analyzed their diversification, the results of investment decisions and investment timing.

Some of the results are obvious, and others are quite surprising. Among the more obvious, the super rich carefully harvest losses so as to minimize their tax bills. This makes sense as the rich are more likely to be in the highest tax bracket, so they have the most to gain from taking losses. In addition, the rich have advisors and accountants who carefully manage taxes.

It is not surprising the rich have well-diversified portfolios considering they should have sophisticated advisors and plenty of assets to spread around. However, the study shows that on average they have a portfolio of nearly 120 stocks, two dozen mutual funds and exchange-traded funds (ETFs).

Any basic fundamental investment reading you do tells you this many holdings is *over*-diversification. When someone is over-diversified, he or she will find that their portfolio will behave much like the market in terms or risk and return generally will be less due to excess transactions fees and management fees. One is far better off investing the money in an index fund or index ETF. I would guess the rich face this quandary since they have on average six different advisors, and the advisors tend not to communicate with one another. Instead, one advisor should oversee asset allocation.

It is surprising that the super rich panicked and pulled out when the market fell in 2008. One would think that wealthy individuals would have kept a few million dollars in U.S. Treasury bonds for a rainy day. It surprises me that the affluent chase fads and bubbles and get caught holding such assets. For example, after loading up on mortgage-backed securities, they lost 36 percent in 2008. One would think that a professional advisor representing these clients would know better and not chase fads or inflated or bubble-type investments.

All aside, and on a positive note, here is what we can learn from the super rich:

- They make most of their 'comparative advantages.' This includes access to privileged investments, which are hard for the average or even kind of rich guy or gal to access. The rich often will overweight or participate in a particular area or industry where they have greater insight to that market than investors as a whole. You too may have the advantage of knowing an industry and company well and should look to capitalize on it.
- They do not do a lot of buying and selling but tend to buy and hold.
- They or their advisors manage their losses to benefit from reduced taxes.

You may not be super rich now, but no matter what the level of your wealth, you should be able to invest as they do and avoid their mistakes.

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About Susan Carr-Templeton

Susan Templeton is the founder of Stafford Wells Advisors, a wealth management firm serving individuals, families and businesses and advising workplace retirement plans. Stafford Wells was founded in 2008 with the mission of delivering independent, complete, unbiased investment and planning advice, free of any conflicts of interest. Susan Templeton has more than 20 years experience in investment management. She received her B.S.B.A. degree in marketing from the University of Denver and her M.B.A. from the University of Chicago. Susan is a trustee for the Advocate Foundation where she chair's the Planned Giving Committee and is a member of the Investment Committee. Susan serves on the investment committee for the Visiting Nurse Association (Chicago) and is a former trustee of the Village of Oak Brook Police Pension Plan.