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Finance firm puts priority on clients

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A few years ago, when the stock market was misbehaving badly, a client of Brinton Eaton Associates, a financial planning firm in Morristown, announced that he was giving up. He vowed to dump every single one of his stocks and stick everything that was left into cash.

The people at Brinton Eaton tried mightily to talk him out of it.

He refused to budge.

The people at Brinton Eaton told him that they would resign from his account if he sold everything.

He sold everything.

They resigned from his account.

Brinton Eaton is a proud firm.

It's proud that it's a truly comprehensive firm, with staffers knowledgeable about investing, accounting, taxes, estate planning, risk management, running a business, and the law.

It's proud that this year marks the firm's 15th anniversary.

Above all, it's proud that it tries to put its clients' interests first.

It is a fee-only firm; it does not accept commissions, which (the planners point out) might compromise their judgment of what to buy for their clients.

Naturally, it won't buy load mutual funds for its clients (those with commissions). Beyond that, it won't even buy funds that have modest 12b-1 fees. (Such fees, for marketing expenses, may be only 0.25 percent a year.)

The gray eminence at the firm, Ben A. Jacoby, CFP, 75, and the managing principal, Robert J. DiQuollo, CPA, CFP, 56, enjoy talking about actual cases where Brinton Eaton has carefully placed its clients' interest first.

One client sold some income-producing property. How should he replace that income? Buying securities or paying down his mortgage?

Brinton Eaton advised: Pay down the mortgage. Even though, if he had invested the money in securities, the firm's management fees would have shot up.

"For us," Jacoby says, "the most important thing is standing in the client's shoes."

The average client has \$1 million to \$3 million invested with Brinton Eaton,

although the company will accept clients with a half million.

Most clients are corporation executives, businessmen or retirees. The firm provides its clients with comprehensive financial planning and money management — there are no hourly clients.

Cost of an initial financial plan: usually \$4,000 to \$6,000. Cost to manage money: a maximum of 1 percent a year.

"We don't just develop a plan," DiQuollo insists. "We make sure it's executed."

The planners will even sit down with a client's lawyer, for example, to make sure that the client updates a will promptly.

With new clients, Brinton Eaton people help them develop an investment policy statement, which describes their goals and investment strategy.

"You can't know your clients well enough," DiQuollo adds. "Their families, their circumstances, their needs. Any special requirements their parents have, or their children, or their grandchildren."

The firm's investment strategy is conservative. It tries for doubles, not home runs. "We don't make large bets," Jacoby says.

And it doesn't market-time (try to predict market turns): "We can't do it correctly," he says, "and neither can anyone else."

It also avoids foreign stocks because of the currency risks, possibly different accounting procedures, and political risks.

Unlike many other firms, Brinton Eaton mainly invests in individual stocks — from its own list of about 80 blue chips. And when it buys a new stock for a portfolio, it tends to remove an old stock.

Generally the firm believes in buying and holding, but at the first sign of trouble, out a stock goes. Generally, no stock makes up more than 5 percent of any portfolio.

Smaller portfolios may have 20 stocks; larger portfolios, as many as 50. For exposure to small companies, Brinton Eaton will buy Exchange Traded index funds. It also uses indexes for bonds, or ladders individual issues (buys bonds of staggered maturities).

Typical stocks on the fund's list of 80: Bed Bath & Beyond, Wal-Mart, Pfizer, Dell, Microsoft, UPS, duPont, Met Life.

The key people at Brinton Eaton are authorities in various fields. Jacoby has run various businesses; DiQuollo has been in the public accounting field for more than 30 years and is the senior tax- and estate-planning professional; Jerry A. Miccolis, CFA, FCAS, 51, is an actuary and a leading authority on risk management with 30 years experience; William D. Baird, 58, was in the banking business for 35 years, often as the top executive; S. Jervis Brinton, CFP, and Jeremy T. Welther, CFP, are investment mavens; Colleen J. Vaillancourt, CFP, is a trust and partnership expert.

The last two planners are in their 30s; Brinton Eaton is deliberately arranging for talented younger people to carry on the business.

At a meeting with several of the planners, I asked how they stand on various controversial issues.

• Annuities?

They might be attractive to someone with a modest amount of money, Jacoby says, but that rules out most Brinton Eaton clients. In any case, the expenses that annuities charge tend to be more than 1.5 percent a year. "That's quite a haircut." The better annuities, in his opinion, are from TIAA-CREF and Vanguard.

• What about planners who put annuities inside IRAs?

"That's not an efficient way to make money," Jacoby says dismissively. (It wastes the tax-deferred benefit of an annuity.)

• Whole-life insurance or term insurance? (Whole life comes with a savings account; term is pure insurance.)

Because long-term term insurance is now available, DiQuollo says, "We tilt on the side of term insurance." But the firm uses whole life for estate planning in limited cases and as part of the insurance coverage for younger people.

• What about any commissions from such insurance?

Those go to the insurance agent. DiQuollo says, "Insurance agents can have an important role to play in providing services to the client."

• A last question: Can they tell me any memorable horror stories?

One client, an executive with a major corporation, owned a great many company stock options. He was about to retire. Brinton Eaton suggested that he exercise one-third of the options every year for three years. The executive was sure that the stock's price would skyrocket. He held on. Brinton Eaton people would call him, again and again, urging him to start selling his options. He wouldn't. When the options expired worthless, he lost about \$1 million.

