

THE COMPLEMENTARY COMPETENCIES OF DAVE ROOT AND CARRIE KUNTZ BENEFIT THEIR MIDDLE-CLASS MILLIONAIRE CLIENTS

BY ROBERT F. KEANE

The Power of Two

IF THE FUTURE OF THE ADVISORY BUSINESS—and the future of the independent broker/dealer industry—is all tied up with efficiently providing customized wealth management services through a tight relationship with a key partner, then Dave Root and Carrie Kuntz are living that future now. Many of the family office services that they provide to their middle-class millionaire clients are made possible, they say, through the expertise of their broker/dealer, though their unique approach to serving clients had its genesis in steps they took to make their own hectic lives a bit less complicated.

The two are business partners and co-founders of D.B. Root & Company, a wealth management firm based in Pittsburgh at which he's the CEO and she's the president. The firm currently serves about 350 households, with two or three clients per household, and has an estimated \$950 million in assets under management.



“Our clients are individuals as opposed to institutions, primarily families. I would say that more and more of our client base would be described as middle-class millionaires, and we would define that segment as families that have between one and \$10 million,” explains Root. “In practically all instances we’re managing assets, and I would say that’s our core competence, and it’s been our core competence since we started the firm in 1994, but we’ve branched out from there and now have other disciplines in house that we can offer and bring services to our families.”

Root and Kuntz didn’t start off with a business plan aimed at what Root calls “the working rich,” but when they analyzed client roster it became clear just who they were serving.

“I think it’s just an evolution of how wealth is being created in this country, that the fastest growing class of people in terms of wealth is what we call the mMillionaires—the middle class millionaires,” adds Kuntz (see “*The Family Office for the mMillionaire Family*,” sidebar, p. 5).

As these clients have accumulated wealth, they’ve also acquired advisors along the way—accountants, attorneys, business evaluators, insurance agents—and what Kuntz says D.B. Root provides for their clients is either all of those services under one roof or at least the services of a professional quarterback to coordinate all those services into one coherent wealth management plan.

A FAMILY OFFICE FOR THOSE WHO AREN'T FILTHY RICH

One of the things that set D.B. Root and Company apart from many other firms that call themselves wealth managers is the range of services available in-house. The firm has had a CPA in its office for 10 years to prepare tax returns and provide comprehensive tax planning. She also serves as the firm’s controller and has created a bill-paying service for clients. Then there’s the in-office attorney.

While many advisors are probably thinking that they just couldn’t take on the cost of adding such services, D.B. Root has found a way around that. “The relationships are unique in that both individuals—the attorney and the CPA—are independent,” explains Root. “They have their own practices. We provide office space and don’t charge for any of their overhead. The agreement is that they provide a certain discounted fee schedule to our clients in return for their office space and support services. We don’t share fees. The arrangement is to benefit the client.”

“It helps us to do our job on the investment advisory side a lot more efficiently, especially with the tax services here,” interjects Kuntz.

“This was all an outgrowth of Carrie’s and my own personal situations,” says Root. “We have built a firm to suit ourselves in a family-office way—accounting and bill paying, estate planning and legal advice—and we are bringing that to our clients in a comprehensive, almost holistic service. We feel that this can be a new paradigm for the industry.”

Root says that although they still maintain relationships with outside professionals, he and Kuntz had often been frustrated with making professional referrals and then not being kept informed about how the matter had been resolved. “Out of that frustration we said, ‘Let’s establish our own in-house relation-

ships and manage it in such a way that it’s more efficient and a better service to the client, because we’re all under one roof and sharing information.”

“We’re still willing, when a new client comes on board, to work with advisors that they have in place,” stresses his partner. “But we make it clear that we’re going to be quarterbacking the relationship and we’re going to be calling their other advisors. And instead of just referring out, or assuming that the other advisors are going to communicate with us, we take the responsibility to initiate that communication.”

The desire that Root and Kuntz have to simplify things for themselves as well as their clients led them to become affiliated with the independent broker/dealer Commonwealth Financial. “They make our lives so much easier, particularly in the back office—all the basics of trading, account reconciliation, reporting,” says Root enthusiastically. They’re the workhorse behind the scenes.”

D.B. Root & Company

436 Seventh Avenue

Pittsburgh, Pennsylvania 15219

Telephone: 412-227-2800

Year firm founded: 1994

Number of planners: Six (all CFPs)

Number of clients: 350 households

Assets under management: \$950 million

Compensation: Fee-based

Broker/dealer: Commonwealth Financial

David B. Root, Jr., CEO

E-mail: d.rootjr@dbroot.com

Previous incarnations: President, Bill Few & Associates; Muhlenskamp and Company; president of the Pittsburgh Hornets - AAA Hockey Association

Education: University of Michigan

Professional designation: CFP

Interests: director of finance for Asian American Institute for Research and Education (ASIAM); member of the President’s Council for the Pittsburgh Theological Seminary

Carrie Coghil Kuntz, president

E-mail: carrie@dbroot.com

Previous incarnations: Shearson Lehman Brothers; Butcher & Singer, Inc.; Bill Few Associates

Education: Robert Morris University, concentrating in finance and organizational studies

Publications: *The Newlyweds’ Guide to Investing & Personal Finance* and *What’s Your Investing IQ* (author) and *Getting Started in 401(k) Investing* (contributor)

Professional designation: CFP

Interests: past president of the Pittsburgh chapter of the Financial Planning Association; named to *Barron’s* Top 100 Financial Advisers (2005, 2006, 2007)

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“One thing that Dave and I have realized over the years is that if you’re going to run a successful business, you have to be focused and you have to know what your mission is,” says Kuntz. “You have to know what the economic engine is that’s driving the business. Trying to do this on our own would be a huge distraction from what we’re really trying to do.”

The partners are particularly effusive about the technological benefits that Commonwealth has brought to the firm, including providing account aggregation and Web site support. In addition, they mention a Commonwealth project to provide a virtual office for clients, not just of D.B. Root, but of all their affiliated advisors, that would provide a single secure vault to store all important electronic financial documents.

INSTITUTIONAL INVESTING FOR MIDDLE-CLASS MILLIONAIRES

D.B. Root & Co. is fee-based, with the majority of revenue coming from asset management fees which range from 125 basis points on the first half million dollars down to 60 basis points on accounts above \$3 million. The firm also charges consulting or retainer fees for the financial planning work they do. Including the two owners, there are six planners on staff, all holding CFP credentials.

When it comes to investing, D.B. Root takes a tactical approach to asset allocation that gives its mMillionaire clients (with assets of between \$1 million and \$120 million) options often only available to much wealthier individuals.

“We believe in diversifying broadly between seven different asset classes—asset classes that are probably more familiar to institutions,” explains Root. The asset classes include private equity, absolute return, managed futures “through real assets using natural resources,” as well as more traditional items like domestic and foreign equities and fixed income.

“Our objective is to structure a client’s portfolio so that we have specified weightings in asset classes that don’t correlate to each other,” he continues, noting that they’ve tried very hard to make sure there’s not a lot of overlap between asset classes. “We want to own things that don’t correlate with each other. The end result is that we want to produce a rate of

return consistently over and above inflation each and every year so that we can meet our clients’ needs—both income and capital accumulation—in the most consistent way possible. It has to be measured as a return over and above inflation. Our target rate of return is 4% to 6% above the rate of inflation; that way we can cover income needs as well as incorporate a hedge against inflation.”

Kuntz stresses that the concept isn’t unique—institutions have long employed this approach to diversification, but that most individual investors think their options are strictly limited to stocks and bonds. As a result, when the firm takes on a new client, there’s often a certain amount of education that has to be done because most are totally unfamiliar with the institutional approach.

Investment vehicles used are primarily professionally managed funds run by individual fund managers with established track records, “methodologies that we understand,” and low cost structures. The firm also uses some private funds and ETFs.

“Where we probably add the most value is with relationships that we have with independent managers that we’ve worked with for years and years that have demonstrated the ability to add value within their disciplines,” he says.

What’s In A Name?

SINCE DAVE ROOT and Carrie Kuntz are partners it might seem strange that the firm is called D.B. Root & Company, and not Root & Kuntz, or alphabetically, Kuntz & Root. It’s a personal matter for Root, but both partners insist it’s not about his ego.

“My grandfather had his own financial services business, which he started in 1931, of all times, about two hours north of here in Erie, Pennsylvania. His name was Paul Root and he called his firm P.B. Root and Company. I guess the sentimental link is to my grandfather even though his company no longer exists.”

As Dave Root explains it, his grandfather’s best friend had founded the Erie Insurance Company and invested the premiums collected on his company’s policies in bonds. He suggested to Paul Root that he start a business to broker those bonds.

Kuntz adds that although she and Root founded the firm together in 1994, at first she was not an equal partner, as she is now.

There’s another connection to P.B. Root & Company besides the similarity in names. When he graduated from college in the late 1950s David Root, Sr. joined his brother in working in their father’s business and in 1996 he joined his son at D.B. Root & Company. He’ll be 71 this month and still works a full day, every day, and carries a full load of clients.

“I think the perception, usually among people that don’t know us, is that my father started the firm and we are the successors, when, in fact, it has been the opposite,” says Dave Root, Jr., who says that working with his father has been wonderful.

“He’s been in the business almost 50 years, so he brings a depth of experience and historical background that’s very beneficial and keeps us grounded.”

A Family Office for the “mMillionaire” Family

DAVE ROOT RECALLS the launch of what D.B. Root & Co. calls “the Family Office for the mMillionaire” as the result of an analysis of just who the firm was serving. “Looking at our clients, we were looking at people who are what you would describe as middle class. But when you looked at their net worth and their financial picture they were well into that millionaire class status. Their lifestyle and their upbringing were pretty well rooted in the middle class, sharing the same values—hard work, all the things that their parents and grandparents had embedded in them. We felt that identifying our target market with a single phrase or word would help define for us who our clients are; we came up with the term mMillionaire.”

Kuntz adds that the needs of these clients are different than those of individuals who were born into wealth. “The concept behind our family-office services for the mMillionaire is that we truly felt that these people needed to have similar services that the ultra-wealthy have,” she says. “A family that has \$100 million, they’re getting the appropriate attention with all the aspects of their finances from legal to accounting to insurance to estate planning.” But Kuntz argues that “We feel that this segment of the population needs attention in all of these areas” as well.

While Root believes that asset managers can’t afford to remain passive, he’s not a day trader by any means. “It’s active in that, and this is going to sound trite, it’s not passive,” he says of his investment style with a slight laugh. “It’s active in the sense that every day we’re managing our allocations.”

He says rebalancing is probably done two or three times a year and that the turnover ratio works out to between 30% and 35%.

“Our decision-making is not systematic,” chimes in Kuntz. “It’s not as though we are targeting certain allocations and automatically rebalancing. We take a much more macro view to what’s going on with the markets and with investments.”

That macro view and its approach to diversification have allowed D.B. Root & Co. to remain calm in an unsettling environment for many investors. “For the last year we’ve had a 12% weighting in U.S. stocks, we’ve had a 15% weighting to foreign equities, so our exposure to the equity markets has been fairly minimal, riding through this very difficult and challenging period,” says Root by way of example. “By contrast we have an overweighting in what we call the real asset category, the natural resource category—that would include real estate and managed futures. A 28% allocation there has assured that not only have we done a good job of diversifying the portfolio over the last 12 months it’s assured that our clients have earned positive returns—and fairly healthy positive returns, returns that are consistent with our goal of 4% to 6% above inflation.”

REMOVING THE BURDEN

That calmness in the face of market turmoil should not be confused with a lack of concern. There are always concerns over factors that are outside an advisor’s control, ranging from terrorism to natural disaster to recession. In the face of all these potentialities, Root says he wants to make sure that their clients have the right asset allocation to preserve capital. “Our clients are this middle-class millionaire group,” he says. “They’re successful professionally, they’ve achieved a certain level of wealth, but by no means are they done accumulating wealth, nor, more importantly, are they secure that they have enough money. Most of our clients in this segment would be described as insecure.”

“And sometimes rightfully so,” adds Kuntz. “We’re looking at mMillionaires and they’re generally people that have made a lot of money, saved a lot of money, and have not worried about spending a lot of money because they’re making, on average, a half a million dollars per year. So there is definitely a transition when they hit retirement, where they’re used to spending whatever they want and now they have to live within a budget. That’s one of the challenges we have. If they want to maintain, or think they can maintain that same level of spending, even though they’ve created a lot of wealth, typically they haven’t created so much wealth that they can have a half a million dollars of income for 25 or 30 years.”

Root’s biggest worry for these clients is inflation. “In our opinion inflation has been understated for years and now is really once again stepping to the forefront in terms of not only becoming an issue but, potentially a real problem, not the least of which is rising gas prices, rising food prices, and the cost of travel,” he says. “All of these things impact the lifestyles of our mMillionaire clients.”

The partnership that Dave Root and Carrie Kuntz share was forged when they worked together as a team at their previous employer, Bill Few & Associates, and in conversation it’s obvious how well they mesh. Kuntz describes Root as the firm’s visionary and credits his entrepreneurial energy with continually pushing things forward. She says her own role is to take those ideas, help cultivate them, and ultimately put them into action.

“It’s a great balance of core competencies,” she says, “because my background and my expertise really lies in the organizational structure of the firm, the positioning of the talent within the firm, and making things happen.”

“It makes for an interesting partnership because we’re coming at each other with different views,” Kuntz continues. “He’s stretching my thinking and I’m grounding his thinking. It makes for a great partnership. It allows us to be successful because we’re always playing devil’s advocate with each other.”

“But we absolutely share the same vision with respect to our clients, how we serve them—it’s the same goal always,” Root says in conclusion. “Long statement short: We want to unburden the mMillionaire of all their financial concerns.”

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