

## 2008 Best-in-Business Award Winner

### **Litman/Gregory Asset Management, LLC** **Larkspur, California**

Craig Litman and Ken Gregory opened Litman/Gregory Asset Management in 1987, just seven months before Black Monday. They were inexperienced at building a business, and the stock market crash didn't make it any easier for them. But they were also optimistic, energetic and determined to succeed.

After weathering a couple of tough years, the firm took off. Today, Litman/Gregory manages more than \$3.7 billion in assets and serves more than 200 households. Its founders say Litman/Gregory has thrived because the firm consistently makes decisions based on its values— independence, integrity and excellence—and not the potential impact on near-term profitability. “We feel that if we’re consistent with those beliefs and values, it is ultimately good for the business,” Gregory says. “We’ve proven that over time.”

#### **Following an Independent Spirit**

Litman and Gregory's independent streak led them to expand their investment management services by establishing separate but related businesses, all based on research. In addition to Litman/Gregory Asset Management, their companies include AdvisorIntelligence, a Web-based service that provides investment research and practice management advice to advisors; the *No-Load Fund Analyst*, a monthly publication; and the Masters' Select Funds. The latter, a mutual fund business launched in 1996, was considered risky because few financial advisors had ever launched their own funds. But Litman and Gregory thought they had a winning idea and moved ahead anyway.

They hired multiple stock pickers who they believed were particularly skilled to sub-advise their funds and gave each of them a mandate to run a highly concentrated portfolio of 10 to 15 stocks, rather than the 50 to 100 that make up standard mutual funds. Since its inception, the business has expanded to include five different funds, three of which are Morningstar Fund Analyst picks. “The Masters' Select Funds allowed us to bring something unique to our clients that also generated revenue, which has been helpful in further expanding our research base,” Gregory says.

#### **Doing Business with Integrity**

Beyond its fierce independence, Litman/Gregory prides itself on adhering to the highest ethical standards when serving its clients. Litman likes to tell the story of how the company responded after unintentionally selling certain client assets a few days too early, resulting in unnecessary short-term capital gains taxes. “If we hadn't said anything, none of our clients would have noticed, but we didn't feel it was right,” Litman says. The company told its clients about the mistake and offered to offset its fees until the clients had been reimbursed for the difference.

“We didn't do it because we expected pats on the back, but because it was the right thing to do,” Litman says.

## **A Commitment to Excellence**

Litman/Gregory's dedication to excellence starts with a commitment to disciplined decisions supported by fundamental research. This strategy has carried the firm through booms and busts. For example, in the late 1990s, Litman/Gregory resisted overweighting client portfolios with technology stocks, believing the valuations in this sector were a cause for concern. "That was really tough for us, because we probably lost more business in 1998 and 1999 than we've ever lost in our history," says Litman. But when the technology bubble popped, "we were proven correct, and those clients who stayed with us were rewarded. It was a great reminder for us to stick with our discipline."

The firm also earns client loyalty through consistently exceptional service. Portfolio managers serve an average of just 40 clients and commit to long-term and responsive relationships. Litman/Gregory also works closely with clients' CPAs, providing comprehensive, custom tax projections. The firm keeps clients up to date with seminars, regular meetings and a quarterly newsletter offering financial planning ideas and investment research.

## **Best Practices**

Litman and Gregory share several best practices that have contributed to the firm's success:

- **Hire the right people.** Litman/Gregory will let a position go unfilled before hiring a person who doesn't meet the firm's standards. "We're looking for people who share our company values, who are committed to providing great service, who have a high level of integrity and who are passionate about what they do," Litman says.
- **Maintain a healthy culture.** Flexible work schedules show that the firm respects its employees' non-work lives. And a "fun committee" plans monthly events that bring employees together outside of work.
- **Seek client feedback.** Regular contact with clients keeps advisors in touch with clients' needs, but Litman also recommends client satisfaction surveys. "No matter how well we think we know people, it's important to give them an independent avenue for them to voice questions and concerns," he says.
- **Invest in your business.** "If it's going to make us better at what we do, or improve the work environment, we usually find a way to do it," Gregory says. Whether it's hiring someone new, investing in technology, improving the firm's ability to serve a client or enhancing the culture, Litman/Gregory seeks long-term benefits.

## **The Future**

Litman/Gregory doesn't let profit motives dominate decisions about growth, nor does it support growth for growth's sake. Rather, Gregory says, "We want to maximize our profitability, but only as long as it doesn't undermine our culture or the quality of what we do. If we can deliver in these two areas, the growth will come."

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