Trust
Trust Company of America

"EVOLVE your practice, I DID"

FIRM: Weatherstone Capital Management

LOCATION: Denver, CO

FIRM TYPE: Investment Management

FOUNDED: 1990

CUSTODIAN: Trust Company of America

Michael Ball

During a period of economic hardship for many RIA firms, Weatherstone Capital Management successfully expanded an impressive 633%. With a strategy aimed at continually improving its risk-adjusted returns, Weatherstone has been able to stay true to its goal of being, "one of the best tactical money management firms in the country."

When ***Michael Ball*** was in college at Utah State University, his goal was to become a financial advisor. Realizing that every financial advisor says that they can do a better job of taking care of a client's investments than the advisor down the street, he decided to enter the US Investing Championships to set himself apart. During his second year of participation he came in 3rd in the mutual fund division, which was reported nationally in publications such as *Barron's*, the *Wall Street Journal*, and *Investor's Business Daily*. "Suddenly, I was getting a flood of calls from people who wanted me to manage their investments," he remembers. "I had to say, 'Hey, I have to go to class in ten minutes.'"

That was in 1990, and Michael did set up an RIA to manage the portfolios of some of the callers. Over the next 20 years, the firm he was running out of his apartment has become Weatherstone Capital Management, in Denver, CO, with $850 million in client assets. Some of that is in the portfolios of his original clients, but nearly 90% is now from portfolios of other advisors' clients. "We still manage our own client money, but we're not looking to add to it," he says. "Now we prefer just to manage the portfolios and let outside advisors manage the client relationships and financial planning. We like to work with financial planners; advisors who offer full client service. They tend to think deeply about how to construct client portfolios, and to know how to put them together. They have an investment philosophy, so they're not jumping from one strategy to another. And, they do a better job of managing their clients' expectations, so they have longer relationships with their clients."

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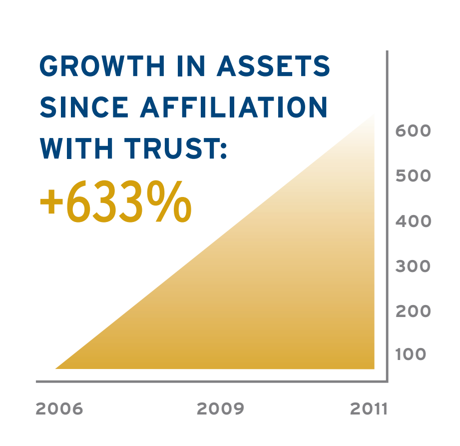

Ironically, Weatherstone got a major shot in the arm from the turbulent markets resulting from the mortgage meltdown and the subsequent recession. "Once volatility started to skyrocket in '07, many people started looking for a more tactical solution to allocating assets. Buy-and-hold became a lot less popular," he remembers. "We believe that markets are adapting over time. Things that should happen every thousand years tend to show up every five years or so, these days. Getting complacent about how you invest can be a significant risk for an advisor. The consequences have become more severe if you get it wrong, and people's retirements are riding on it." Apparently, a significant number of financial advisors agree: Weatherstone's assets under management have grown from $116 million in March of 2006 to its current $850 million in January of 2011—an increase of 633%.

Ball describes his management strategy as tactical asset allocation; He moves portfolio assets into and out of markets and sectors to take advantage of the opportunities he sees, and moves away from positions that appear to have become overly risky. To do that, he uses a three-tiered analytical approach. In the first step, he looks at broad leading indicators: "First, we look at economic and market historical trends," he explains. "The direction of interest rates, how long the market has been trending in its current direction, trends in broad-based domestic sectors, etc. We also study the magnitude of recent trends, compared to historical norms. For instance, the average bull run goes up about

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67%, so if we’re up 87%, we know we’re not in the early stages any more.”

In the second step, Ball and his team look for sectors and/or asset classes that historically have done well in markets similar to the current one, and then they drill down in those areas to determine if any opportunities still exist. “We look at their relative strength, their momentum, and whether they’re over-bought or over-sold,” he says. Finally, they look at technical factors and cash flows into and out of attractive sectors to identify any clear trends. “A trend doesn’t have to be bullish for us to make money,” he says. “We’ll go to cash or use inverse funds to capture a movement that we feel looks historically negative.”

NUMBER OF EMPLOYEES:
13

AUM PER EMPLOYEE:
$65.4M

He’s even been known to be both long and on the sidelines or even short in the same market. That’s because Ball typically uses two or three investment models in each portfolio. “Every strategy tends to get out of sync with the markets at times,” he says. “So instead of coming up with an overall model and betting the farm on it, we use multiple models and let each one drive a portion of the allocation.” Weatherstone even includes outside investment managers in some of its portfolios: “We believe that diversification of investment strategies is essential to long-term success,” he says. “So we offer other investment programs on our platform. Each sub-advisor makes his or her own investment decisions. I monitor what they’re doing, and sometimes coordinate some of our positions to maintain a good balance.” Ball’s goal in each of his portfolios is to capitalize on the opportunities within that portfolio’s limits (Global Opportunities, Conservative Growth, etc.), while minimizing the risk. During the past ten turbulent years, he’s been able to do just that. For example, his Diversified Growth Program generated annual returns of 6.27% with a beta of .61; the Focused Growth Program earned 7.46% per year also with a .61 beta; and the Global Opportunities Program returned 10.86% per year, with a beta of .71.

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If all this sounds extremely complex, it is. In fact, the only way for Weatherstone to manage multiple investment strategies across 15 model portfolios combined in different weightings into thousands of client accounts is to utilize very sophisticated technology. That’s why Ball works with Trust Company of America. “With Trust, we have the ability to use multiple investment programs inside of a single account that might each contain three or more tactical models," he says. "We can do all that, and the client just gets one statement. What's more, with Trust, we don't have to worry about individual ticket charges, that would make smaller accounts uneconomical to manage." With Trust's technology platform, Weatherstone does all their active trading over several thousand accounts with one-full time person. "We would need least six traders to do this the old way," says Ball. "Their level of technological flexibility and sophistication allows us to keep our fees lower than other tactical managers."

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