



Sophisticated Investing is a Mindset

By Mike Benevento, Partner

I am a competitive person. Anyone that really knows me would confirm that. I would even argue at times my competitiveness has been a detriment. I have learned that if you can't harness your competitiveness, it can be destructive. You must learn to channel it. That requires a shift in mindset.

Part of what led me to the hedge fund business over twenty years ago was my competitiveness. Alternative investment management is a performance-based business. If you deliver returns for your clients, you get compensated. If you don't, your clients fire you. There is more to it, but at its core that is why the most competitive people in money management are drawn to the challenge. I loved the stress and intensity of getting "marked" daily. In the equity markets, at 4pm each day, your "P and L" tells you if you won or lost. It is pure; it is transparent; and it fed my competitive nature. But that is not the business I am in anymore, and that too has required a shift in mindset.

Let's talk about mindset. In the fall of 2018, I was struggling with several things, both personally and professionally. I was sharing some of these struggles with my friend Kaveh during one of our semi-regular lunches, and he recommended a book called *Mindset* by Stanford University psychology professor Carol Dweck (shameless plug: I get some of my best reading recommendations from Kaveh). I read the book cover to cover during a quick five-day vacation my wife and I took to celebrate our twentieth anniversary. It's not hyperbole to say that it changed my life. My family makes fun of me because I demanded they read it and I aggressively recommend it—everyone on this distribution can now count themselves as included.

So why has my new role at CastleKeep required a shift in mindset? I have spoken in the past about how moving into wealth management has allowed me to combine my genuine desire to help others while continuing to be a sophisticated investor. Yet I have struggled with the definition of "sophisticated investor."

I knew what that meant in my former seat, but as my CastleKeep partner Steve Haberstroh astutely pointed out, "you're not in that business anymore." Steve was right, and I needed to shift my mindset. Just because I am no longer managing a long/short equity portfolio and getting marked at 4pm each day, doesn't mean that I am any less sophisticated. In fact, I would argue the new role requires more sophistication. A broader analysis and understanding of asset classes; a deeper dive into managers and performance; a wider network of investment offerings; and most importantly a comprehensive understanding of the client's desired outcome and a plan that delivers it most efficiently and effectively. We are allocators as much as we are direct investors. Our investment sophistication is in its simplicity when it solves for the desired outcome of the client.

Shifting my mindset was easy once I applied a technique that I often use to problem solve. There are many definitions, but I refer to it as "reverse-engineering." In this case, I try to put myself in the seat of the client and operate from their perspective.

Obviously, every client is different, but I start with the fact that while I used to wear risk and drive returns, my job now is to allocate, protect and augment wealth. **That starts and ends with understanding the personal goals of the client and delivering financial solutions to drive those outcomes—then the willingness to be flexible as market or client dynamics change.**

I was recently speaking with a friend who is a senior executive at a different advisory firm and we both agreed this approach is lacking on Wall Street. Many advisors who position themselves as sophisticated investors think about risk and returns and pitch complex strategies and products. But when I reverse engineered the approach, I quickly determined the objective. Our current and prospective clients built their wealth doing something —running and/or selling a business, being an executive, inheriting family wealth and in some cases, themselves being “sophisticated professional investors.” Those same clients and prospective clients want to maintain wealth and solve for desired outcomes. I used to think that was “less sophisticated.” I now believe that is our sophistication.

Armed with a shift in mindset I finally tried to apply the analysis and how I believe CastleKeep differentiates itself from some other high net worth wealth managers and multi-family offices. Our Founder and CEO Charlie Haberstroh established the firm with the founding principle that very wealthy client families deserve an objective, flexible and personal level of service that may not be provided by large financial institutions. That doesn’t mean any less investment sophistication, in fact, it means more.

What it also means is that individuals and families must be very selective about the people that are delivering that service and providing for the outcomes—the human capital that will care for their wealth. In some cases, we at CastleKeep must be selective about those who are invited to become clients. Why? Because the relationship is a partnership, and doing what is right for the client first and foremost doesn’t necessarily come naturally to most financial professionals. In fact, having worked on Wall Street for thirty years I would go so far as to say that some professionals think about their own personal advancement and compensation first. It’s a highly competitive industry (see above).

This is why I believe we will win. We lead with doing what is right for the client, but we are also sophisticated investors. We can understand (and sometimes implement) complexity but have the skillset to simplify and empower clients with knowledge and comfort. That’s probably not a different answer than you would get from most wealth managers or private bank representatives. And while they say they will do whatever best leads to the client’s desired outcome, often they can act based on how they will get compensated. That’s human nature. The only way to truly know is to have a body of work that provides evidence that “acting in the best interest of the client,” as is required by law, also permeates the firm’s culture. The professionals at CastleKeep have been guided by this principle for twenty-three years. We are as sophisticated as many other managers of wealth while offering a high level of care to our clients.

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