WEALTH MANAGEMENT | RICHARD C. MORAIS

Stars, Execs and Moguls: How to Invest Your Money Now

THR goes straight to the source — top private banks — to reveal savvy strategies for three levels of Hollywood one-percenter portfolios, complete with handy tables to tear out and take to your own money manager (no commission required)

The economy might be chugging along, but Americans are in the end stages of the longest bull market in U.S. history, with interest rates on the rise, and almost daily external shocks being delivered by the White House. In this environment, where should smart Hollywood executives and talent be investing their money?

To find out, I created for *THR* three profiles: a 40-year-old male midlevel studio executive with a $3 million portfolio, a 50-year-old female studio boss with $25 million to invest and a 35-year-old male franchise star with $50 million in investable assets — and asked Hollywood's most experienced wealth managers to create an investment strategy suitable for each client. The tables outlining their portfolio calls are on the following pages, along with a handy average for the group.

To use this intelligence wisely, it should be noted that, in reality, investment advisers always tailor their client's portfolio to his or her specific needs and risk tolerance, adding factors like debt levels, overhead and life goals into investment decisions. For example, before William Broder, president at the management firm Freedman Broder & Co., dispenses investment advice, he first determines whether the client is married or single and/or supporting ex-spouses; if they have children heading to private schools and/or college; whether they own their home and other properties and, if so, the due date of their interest-rate term on their mortgage or mortgages. Even items like family medical issues and vacation plans can be factored in.

In other words, the following tables are not to be taken as gospel but are "model" moderate-level risk asset allocation recommendations that should solely be used as the basis for further discussion with a wealth manager about specific needs and goals.

Each profile has a backstory that mirrors real industry lifestyles. The 40-year-old male midlevel studio executive may have, for example, steady cash flow in the form of an annual salary and many years of productivity still ahead of him, but he probably also has young children in private school and is at that stage in life where he is trading up to a more substantial home.

Similar scenarios may apply to the 50-year-old female head of a studio, though college tuitions may be more what's in play. A veteran studio chief is also likely to be at the stage of thinking about devoting more time and energy to philanthropy — and having investment returns and stability to meet charitable goals and commitments would then guide her adviser's allocations.

In contrast, the 35-year-old franchise star

RICHARD C. MORAIS *is the former editor of* Barron's Penta, *a magazine that served families with $5 million or more in assets.*

The Midlevel Studio Executive

Diversification — spreading investment risk among a range of asset classes that rise and fall independently of each other — is the holy grail of all portfolios. In this $3 million case, J.P. Morgan Private Bank invested an aggressive 79 percent of the studio executive's assets in equities, essentially reasoning, alongside Warren Buffett, that stocks still are the best means to increase wealth over time. J.P. Morgan then countered that volatility risk with a 16 percent holding in top-quality bonds and municipals. David Regan, team leader of West Coast investing at J.P. Morgan Private Bank, says his aim is to create a "dual mandate of stability and reliable cash flow" for the studio executive.

It's also a classic diversification strategy at work: When the studio exec's equities start tanking in the next bear market, his investments in "safe haven" U.S. treasuries, top-rated corporate bonds and quality municipals will rise in value, helping to offset stock market losses. Furthermore, remember that the 40-year-old exec has his salary to cover his basic costs and so should be able to weather any temporary downturn in equities. Having a cash cushion is key to all income levels. Northern Trust generally parks a year's worth of a client's expenses in cash or cash-equivalents so the client can avoid distress sales during the hard times.

Other firms took a very different tack to J.P. Morgan and its ilk. Singer Burke invested only 35.7 percent of the clients' assets in equities but conversely took a hefty 33.7 percent position in alternatives, a catch-all for more arcane investments like real estate, commodities and private equity.

Richard Singer and Stephanie Connor Arkof, the partners making investment decisions at SB Capital, say they prefer avoiding the herd and looking for "idiosyncratic risk and returns." Says Singer, "We believe that smaller management firms in less efficient asset classes can make outsized returns." Example: They currently favor niche real estate investments in storage, senior and student housing, and manufacturing units.

But aren't alternative investments too high-cost for a relatively modest $3 million portfolio? Not according to some wealth advisers: Anouchka Balog, sports and entertainment director at Morgan Stanley Wealth Management, parked 18 percent of the studio exec's assets in hedge funds and Master Limited Partnerships, which, she says, have big payouts, tax advantages and attractive valuations. However, such alternative positions are obtained via mutual funds mimicking hedge fund strategies, and through low-cost ETFs investing in MLPs. "We can take care of the alternative portion very cheaply using liquid alternative managers," says Balog.

$3M Portfolio

THE INVESTORS
Abbot Downing
BNY Mellon Wealth Management
Citi Private Bank*
City National Bank
Freedman Broder & Co.
J.P. Morgan Private Bank
Morgan Stanley Wealth Management
Northern Trust
SB Capital Management
AVERAGE

Illustration by **Mario Wagner**

might be sitting on a rich $50 million investment portfolio, but he doesn't necessarily know when his next series of projects with accompanying payday is coming, plus his wealth is built entirely on fleeting fame. The three clients have, in short, very different cash-flow issues — and anxieties.

Furthermore, an observant reader might notice that while Singer Burke (parent of SB Capital Management on our table) and Freedman Broder are well-known Hollywood management firms, the vast majority of wealth managers are heavyweight private banks, ranging from Hollywood's City National Bank to Wall Street's J.P. Morgan Chase. That's because most business managers in Hollywood use experienced third-party asset managers to invest their clients' money, and we have gone directly to the primary sources for our investment advice. Our tables roughly reflect the ratio between third-party outsourcing and in-house wealth management that exists in the real world of Tinseltown managers.

Lastly, while banks like City National find the vast majority of their Hollywood clients through managers, Citi Private Bank works mostly with clients directly. The bank's biggest entertainment clients, says Kush Malhotra, Citi Private Bank's market manager for the Western Region South, are mostly foreign talent who came across the bank while overseas, before they moved to Hollywood. THR

Stocks				Fixed income	Fixed income U.S.				Fixed income international		Alternatives						
Total	U.S.	Developed	Emerging	Total	U.S. total	High grade	High yield	Municipals	Developed	Emerging	Total	Real estate	Commodities	Hedge funds	Private equity	Other	Cash total
48%	25%	19%	4%	**35%**	31%	0%	4%	27%	2%	2%	**16%**	5%	2%	9%	0%	0%	**1%**
61.8%	43.2%	12.4%	6.2%	**16.8%**	16.8%	1%	4%	11.8%	0%	0%	**21.3%**	1.5%	1.4%	18.4%	0%	0%	**0%**
N/A	—	—	—	**N/A**	—	—	—	—	—	—	**N/A**	—	—	—	—	—	**N/A**
68%	59%	3%	6%	**26%**	20%	7%	3%	10%	3%	3%	**5%**	5%	0%	0%	0%	0%	**1%**
70%	50%	15%	5%	**15%**	15%	5%	0%	10%	0%	0%	**10%**	10%	0%	0%	0%	0%	**5%**
79%	45%	29%	5%	**16%**	16%	6%	0%	10%	0%	0%	**5%**	0%	0%	5%	0%	0%	**0%**
68%	30%	29%	9%	**11%**	11%	5%	0%	6%	0%	0%	**18%**	0%	0%	4%	0%	14%	**3%**
53.6%	26.4%	17.6%	9.6%	**24%**	24%	5%	4%	15%	0%	0%	**22.4%**	2.4%	6.4%	4.8%	8.8%	0%	**0%**
35.7%	21.4%	10.7%	3.6%	**26.4%**	26.4%	4%	2.6%	19.8%	0%	0%	**33.7%**	10%	0%	5%	15.3%	3.4%	**4.3%**
60.5%	37.5%	17%	6.1%	**21.3%**	20%	4.1%	2.2%	13.7%	0.6%	0.6%	**16.4%**	4.2%	1.2%	5.8%	3%	2.2%	**1.8%**

*Citi Private Bank declined to provide allocations for a $3M portfolio.