

The Quarterly Report

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| INSIDE STORY |



No Soup for You!



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No Soup for You!

I AM A PROUD MEMBER OF THE “SEINFELD” GENERATION. We can communicate in short, seemingly meaningless phrases, and we know exactly what the other person means because of the cultural phenomenon that was the “Seinfeld” TV sitcom. One such phrase is “No Soup for You!”

A New York City chef had opened a restaurant specializing in soup, which he served himself. The only issue was that the customer had to order the soup in a specific manner. If the customer got it wrong and upset the chef, then it was, “No soup for you!” He got away with this behavior because his soup was that good. Well, Jerry and his friends came to enjoy the soup and hilarity ensued. The bit was so funny that it went on for multiple episodes. The chef was known as the “Soup Nazi.”

At Iron Capital we are often asked, “What is your minimum?” The answer to that question is technically \$1 million, but we are allowed to make exceptions, and we usually respond by telling the prospective client that we have never turned anyone away because of a lack of assets. The reason is very simple: We do not view our

clients as dollar signs. This is one of my pet peeves about our business. Several years ago we tried having salespeople. We hired experienced staff from our industry. When they uncovered a promising new prospect and came to tell me about it, they would habitually start with, “She has \$X in her portfolio.”

I would always tell them that I didn’t care about that; what I wanted to know is, who is this prospective client? Why is she interested in working with us, who referred her, and what is she looking for in an advisor? I wanted to know about the person, but the sales mentality went immediately to the dollars.

We are laser-focused on keeping and growing our existing client relationships, which is exactly why we don’t take every single client who comes our way.



It was not their fault. They had all come from the industry, and this is how our industry works. In the industry people think nothing of asking, “What are your assets under management?” I understand what they mean, but the truth is Iron Capital, like every other firm out there, has no assets under management. Our clients collectively have more than \$5 billion that they have entrusted to us to advise or manage, but not a dime of that belongs to Iron Capital. Those assets belong to our clients, who have largely entrusted us with the bulk of their assets, which they rely upon to provide for their various financial goals.

We tell our staff all the time: It does not matter how small a portfolio may be compared to others we manage, it is all the money in the world to that client, and he is just as important as every other client. Our responsibility to him is just as great – and perhaps even greater because he has less of a margin for error. This is our culture and it is why, for several years now, we have no salespeople. We are entirely referral-only, so people must come to us, as we have no one whose job it is to seek them out.

Once a prospective client understands that we are not concerned with their level of wealth, they usually ask the next logical question: “So have you turned people away for other reasons?” The answer is yes. If we feel that a prospective client is not a fit with us culturally, then we will politely tell them that we do not believe this is a fit, and we wish them the best of luck.

That is right – sometimes we say, “No soup for you!” (Much more kindly, to be clear.) Why would we do that? It is not because we are some form of financial advice Nazis; it actually has to do with the fact that we have no salespeople and we do not make any effort to seek out new clients in the first place.

When people from the industry hear that we don’t market ourselves to new clients, at first they often just don’t believe it because, to my knowledge, it is completely unique. They will ask, Aren’t you concerned with growth? Of course I am – people, plants and firms are all either growing or decaying. Growth is necessary for life; this is something the capitalism-haters simply do not understand, but that is a topic for another day.

Iron Capital is a living, breathing firm, and it must grow so that its employees can grow. People need raises, healthcare costs rise – everything is always going up, so we as a firm must grow as well. How do we do so if we don’t have salespeople? We rely on our clients. I have always believed that if we take care of our clients, then they will take care of us. So we focus entirely on taking care of our clients.

How do I get everyone on board with this strategy? I compare it to the Spanish conquistador Cortez, who famously burned his ships upon arriving in the New World so they had no choice but to conquer

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The 4th quarter 2020 GDP growth came in up 4.3 percent as the economic recovery continues. Optimism for continued growth in 2021 is very high. Hopefully that pans out as people expect.

The official unemployment rate is 6.0 percent in March. Jobs have come back at a rapid clip. The traditional belief was that 6 percent represented full employment, although we had been well below that before Covid-19.

Inflation is 1.7 percent based on the latest consumer price index report. It is ticking upward and the producer price index, which tracks wholesale prices, is up 4.2 percent over the last 12 months. Inflation is worrying everyone except the Fed. Expect the Fed to continue to be very aggressive. +

REVIEW of ECONOMY

The market continued to climb.

For the quarter the S&P 500 finished up 6.17 percent and small company stocks represented by the Russell 2000 index were up 12.7 percent. Value continued to outperform.

Bonds sold off during the quarter. The Barclays U.S. Aggregate Bond index ended down 3.37 percent. High yield bonds rose 0.90 percent.

International stocks underperformed but were still up. The EAFE index finished up 3.60 percent while the MSCI Emerging Markets index ended the quarter up 2.34 percent. +

REVIEW of MARKET

MARKET *forecast*

The market continues to climb but at some point, there has to be a breather.

Markets do not go up in straight lines.

Value stocks and small company stocks still have more room to run. International stocks paused due to another wave of Covid but should do well as they get vaccinations distributed.

Bonds had a needed selloff. It probably is not enough yet to make them actually attractive, but they are more attractive than they were three months ago. +

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*We have no salespeople,
focusing entirely on taking care of our clients.*

and settle the land. His men's brutality is legendary. We don't want brutal at Iron Capital, but I basically tell our employees that relying on a sales staff for their own raises is not an option. If they want to grow in their careers here, they will take care of our clients or go work somewhere else. Our investment professionals must grow the portfolios we actually manage, and our service professionals must take care of the clients, because we are not getting new ones.

That is not exactly true. We get more than enough new clients; they all simply come from our existing clients. This only happens because we are laser-focused on keeping and growing our existing client relationships, which is exactly why we don't take every single client who comes our way. Don't get me wrong, it isn't like we turn down all that many, but it does happen.

Our clients understand that we are firm believers in what we call prudent investing. We invest from the bottom-up; we are absolute return-oriented; and we are risk-averse. Our clients understand this, and most of the time this is exactly what their friends want when clients refer them to us. However, we also will get random calls from someone who read about us or saw our name on a list of successful firms. Nine times out of ten these cold prospects start by asking questions that send up red flags, like, "What have your returns been?" And they often start by telling me how much money they have when I ask about them.

These individuals have unfortunately been conditioned by the industry to believe in competitive investing. Most of the time, this would be good for us; we know what we are doing, yet there is no investment strategy that is always successful in the short run, and there is no long-term success without a consistent strategy. I'm not saying that our way is the only way, but one has to pick a way and stick to it. These clients would be our new clients this year and someone else's new clients next year. Why do we care? Why wouldn't we just be happy collecting our fee for a year?

Because of you. The time spent on these kinds of clients is time that we can't spend taking care of our real clients. Then, when they leave, their new adviser will likely sell everything we put in their portfolio, which means they will be selling many of the investments that are in your portfolio. We don't want that.

So yes, we are selective, but it is not because we are arrogant or believe that only a certain kind of person deserves our help. We are not the investment world's Soup Nazi; however, if we believe a new relationship will hurt our existing relationships, then it is, "No soup for you!"

Warm Regards,



CHUCK OSBORNE, CFA *Managing Director*