MOST

Entrepreneurial

How two charterholders capitalized on emerging trends

BY JOHN RUBINO

BYRON SNIDER, CFA

Founder, Live Oak Capital

Back in 1990, Byron Snider, CFA, was a young portfolio manager at Dimensional Fund Advisors (DFA) based in Santa Monica, CA, when an independent financial adviser approached the firm with an unusual request. "He wanted to set up a money management business using DFA funds," recalls Snider. DFA managers liked the idea, so DFA began partnering with discount broker Charles Schwab to create an account through which the adviser ran the money while Schwab handled the underlying administration. It worked and eventually became a new business line for both firms, with Schwab Institutional a preferred platform for independent money managers and DFA a popular fund family. "We ended up working with a lot of advisory firms around the country," says Snider.

Where his employer saw a profitable new niche, Snider saw his future. "I found the business model interesting. It's very personal. I admired the relationship these folks had with their clients. They seemed to know them well and were able to add a lot of value beyond the mechanics of managing the money."

With an eye to one day going independent himself, Snider moved in 1994 to US Trust, which managed money for affluent families. "That got me into the marketplace I wanted to understand better," he says.

Ironically, his big break came in 2000, when technology stocks imploded. Eastern money managers reacted to the meltdown in West Coast wealth by scaling back. "They centralized trading, research, even the ability to write personal opinion pieces to West Coast clients," says Snider. This situation created an opportunity with affluent West Coast clients who wanted personal attention from their money managers. The field Snider had been eyeing for years was suddenly wide open.

"I'm risk averse by nature, and by that time I had a wife, kids, and a mortgage. But what was going on in the business was really dramatic," he says. So taking the plunge, he founded Live Oak Capital—although as a good conservative

> "It's very hard to mass-produce customer service, so this is not a very scalable business."

money manager, he took precautions. "I wanted several years of living expenses tucked away," he says. So he and wife Lisa cashed out of their massively appreciated Manhattan Beach home, which proved to be a wise move in light of the surprisingly high start-up costs of Live Oak Capital. "You see articles saying you can start [a registered investment adviser, or RIA] with US$50,000, but that wasn't our experience," says Snider. "Office space, legal costs, errors and omissions insurance, compliance—it all cost about US$200,000."

On the positive side, it turned out that virtually everything an RIA needs is available from third parties. Schwab Institutional provided the custody platform and back-office administration; Baseline provided the data feed; and outside accountants and lawyers helped set up, register, and insure the limited liability company. Lisa (a techie) worked with computer consultants NetReady Systems to set up a computer network and bookkeeping system and worked with Schwab to create Live Oak's website.

Another crucial part of going independent is leaving your previous company without burning bridges—no small thing when you're chasing the same customer base. "Big firms are very protective of clients and contacts," says Snider. "In many cases, firms will intimidate you, send nasty letters, and tell you what you can't do. US Trust had no noncompete agreements," he says, "but after 16 years in the industry, I had a lot of clients and contacts through the firm." So he actively avoided poaching. "Before I set up shop, we didn't talk to any clients or colleagues. We just sent out an announcement card and waited for the phone to ring. If a client called and said, 'I got your announcement; tell me what you're doing,' that allowed us to tell them about our firm and send them material and, essentially, engage in client solicitation activity."

Early in the venture, the phone rang just enough. After three months, Live Oak had US$25 million under management, enough to qualify as a viable, although small, business. Then, an old US Trust colleague, Mark Talt, called with an interest in joining Snider. The son of an estate planning attorney, Talt was a veteran of business development, "which is exactly what we needed," says Snider. The business took off, with assets rising to the current US$243 million in one smooth arc and the number of professionals rising to five.

Live Oak's approach to investing couldn't be more different from that of, say, a typical hedge fund. Where a hedge fund might run an incomprehensibly complex strategy and communicate with clients via quarterly or even annual reports, Snider's team offers clarity and accessibility. And they don't presume to be able to beat the market.

A typical Live Oak portfolio consists of a core of solid large-cap stocks, with a few DFA small-cap or international funds thrown in for diversification. The goal: "A balanced account that serves the clients in perpetuity and leaves something for their heirs," says Snider. "We're more like a beta shop with very high service. The thing that we can do better than Wall Street is look out for the client's interest. So we distinguish ourselves by offering a greater level of control and transparency. Clients work directly with a portfolio manager. If it's me, they pick up the phone and call me. I'm the one who's doing the buying and selling in their account. And we incorporate their specific circumstances into how we manage the money. The more we can customize it, make it uniquely theirs, the more excited they are to have us do the job for them."

As with all really valuable services, high-touch money management is a lot harder than it sounds. "Being a portfolio manager is very straightforward," says Snider. "Managing the client is much more involved. The interpersonal side is constantly evolving and difficult to perfect. Different people expect different things, but they all want a certain level of attentiveness. In my case, I happen to be neurotic about details, and a lot of clients appreciate that because they don't want the details overlooked when it comes to their money."

As for the future, it looks, well, steady. "It's very hard to mass-produce customer service, so this is not a very scalable business," says Snider. His goal is to keep attracting clients in the US$3million to US$5 million range—and keep them. "This is a great business if you just never lose a client."