My Model Portfolio: Spotlight Asset Group


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This Chicago-based RIA talks us through his firm's range of models and one of its more aggressive client portfolios.

Stephen Greco

Spotlight Asset Group

Chief executive

What is your overall investment philosophy?

Our philosophy can best be described as a core and satellite approach. We believe in the principles of Modern Portfolio Theory, so we set up a base allocation for our clients, which is rooted in diversification and seeking risk-adjusted returns. However, while plenty of advisors seem to be running away from active management, we still feel that it can be an important contributor to our portfolios. Every market brings unique risks and opportunities, so we try to look at each asset class and determine where we can provide additional value over the next 12 to 18 months. In doing so, we focus on technical indicators such as moving averages to determine where we want to overweight or underweight certain asset classes. We feel that this blend of active and passive management will put our clients in the best position to reach their investment goals.

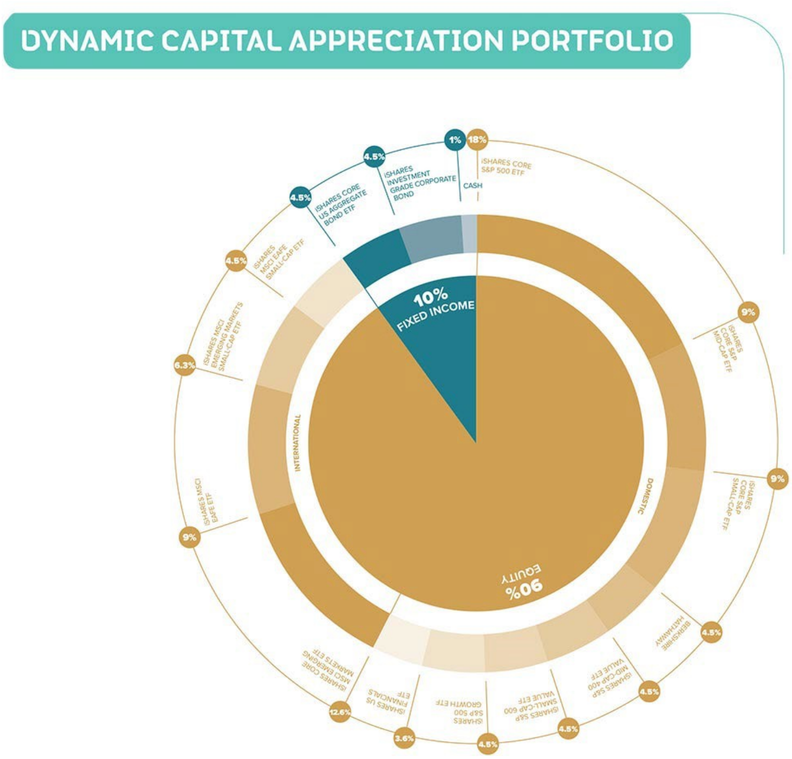
What models do you offer clients?

We currently offer 11 different models to our clients.

1. We have four Dynamic ETF models. On these funds, the allocation ranges will shift depending on our expectations for the market. The four different portfolios are **Capital Preservation**, which is anything from all bonds to 30% equity; **Balanced**, which is 40% equity to 60% equity; **Growth**, which is 60% equity to 80% equity; and **Capital Appreciation**, which ranges from 80% equity to 99% equity.

2. We have two individual stock models. The first is called our **Buy-Write** portfolio, which typically consists of 15 stocks that we may pair with the sale of covered calls to increase yield or hedge against any potential downside. The second individual stock model is our **Spotlight Large-Cap Blend** portfolio, which is more diverse, typically holding between 35 and 50 large-cap stocks.

3. Finally, we have five tactical models that are more active. These are the **Reduced Volatility** model, an **ESG-dedicated model**, an **active fund model** and **tactical bond** and **equity** models, which can range from being fully invested to holding all of their assets as cash.



How do you view manager selection?

If we are going to use an active manager, we look at their track record of outperformance, the size of the fund and the expense ratio involved. Where possible, we find funds that have outperformed over multiple market cycles, with expense ratios that are lower than the average mutual fund. For example, our active portfolio has an expense ratio of 0.55%, which compares favorably with a historical average mutual fund expense ratio of 1%.

What types of clients do you work with?

Most of our clients are high-net-worth individuals. We do have some business clients and 401(k) plans, but at this point about 90% of our assets under management come from individual clients.

How do you use active and passive funds?

As I mentioned, we use both active and passive management for our clients. Instead of using just one model for each client, many of our clients will have multiple models in their portfolio. We lean toward passive management if a client doesn't have a lot of investment experience or if they have has a financial plan with an extreme likelihood of success. If a client has an appetite for more risk or is more sophisticated in their investment knowledge, we will mix in more active components to their portfolio. On average, if a client has a blended portfolio consisting of both passive and active management, it will be about two-thirds passive and one-third active.

Are there any managers you have high conviction in?

We have our greatest amount of assets invested in the Thompson Bond fund, which we have been using as an alternative to some of our fixed income assets while we wait for interest rates to normalize. It is a short-term bond fund that has a 30-day Securities and Exchange Commission yield of 3.72% according to Morningstar. It has outperformed the Bloomberg Barclays Aggregate Bond index by at least 125 basis points in 2016, 2017 and 2018.

Any changes in allocations or managers from last year?

The most significant change that we have made from last year is in our Dynamic ETF portfolios. We added overweights to technology and financials and reduced our exposure to developed markets. Also, we were fully invested to the maximum equity allocation in each of the four models last year, and we are now essentially neutral, investing at the mid-point of our ranges. Given that we expect more volatility in the markets this year, we have also added a VIX hedge to our Buy-Write Individual Stock portfolio, and we have been aggressively selling covered calls over the past few weeks to add a slight hedge.