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Building A Financial Legacy Of Responsible Success

A Q&A With Russ Hill Of Halbert, Hargrove/Russell

Investment firm Halbert, Hargrove/Russell of Long Beach was founded as a broker/dealer in 1933 when the nation was struggling through the Great Depression. The firm transitioned to investment management services in 1989 and now has offices in San Diego, Denver and Bellevue, Washington, with more than 700 clients and over $1.4 billion in assets under management.

Business Journal Senior Writer Angela C. Allen recently talked with Russ Hill, president and CEO of the 76-year-old firm, in a wide-ranging conversation that covered the challenges facing the financial services industry, the federal stimulus plan and why Wall Street broker Bernard Madoff was able to swindle so many investors.

Halbert, Hargrove/Russell President and CEO Russ Hill, shown here with a large metal safe from the Depression era (the firm opened in 1933), helps to manage $1.4 billion in assets for investment clients. (Photograph by the Business Journal's Thomas McConville)

LBBJ: What has been the driving force behind the success of Halbert Hargrove, and what are the company's core values?

Hill: In a real sense – stubbornness. [Laughs.] It's really been about the same [values] since we started, because . . . with the exception of one, I got them all from my dad. (The late Stan Hill was a principal at Halbert Hargrove.) We really have four core values.

The first is, we will operate as capable fiduciaries. That means we'll be a fiduciary to our clients, but also we'll do our very best to be good at it. We do lots of training and certifications for everybody, from the receptionist to the back office.

The second one is, we will do the right thing. We try to figure out what it is and do the right thing and we try to pursue that excellence through consistent effort and innovation and hard work.

The third one would be, we have an appreciation for being here, [and] we like what we do. Everybody gets treated respectfully, [and] everybody gets treated with courtesy.

The last thing is that, as a group, we believe in community service. So we give people time off to [volunteer] in their charities, and we match their contributions to the charity. We think that's something people ought to be doing.

LBBJ: Halbert, Hargrove has remained a private partnership since its founding. What have been the benefits of this strategy?

Hill: The only reason a rational person would go public would be if they're trying to take money off the table, or they need a lot of capital to operate. Because operating as a public company is much more expensive, and it does not allow you to make really long-term investments and pursue the kind of course you want to follow regardless of what happens in the next quarter or [in the next] two quarters. And that's really what we wanted to do. We probably wouldn't have gone public, although we've had a lot of opportunities to sell out. Frankly, turning down the sale opportunities, we felt we would have made more money, but all of the principals here want to stay, and we like it and we've been around a long time . . . [and] we expect to be around a long time. We haven't actually lost anybody we didn't try to lose in the last 20 years. We have a lot of employees relatively younger, not principals, who've been here for seven, eight, nine, or 10 years. [Keeping them] is important.

LBBJ: When Halbert Hargrove opened in 1933, brokers got financial information from ticker tape. Have the Internet and e-mail changed how you do business?

Hill: What's really happened is the business in many ways is much more confusing now because it's much more about managing the flow of data, rather than trying to acquire data. Basically, you have to know what all the legal data means.

We some time ago developed something we call the "action ladder." It starts with data, which is all the stuff you can get across the Internet and [from] e-mail. You move above that to information, and that means there's some organization of the data, then move above that to knowledge, which means you're taking this information and using it in some specific discipline to achieve an end goal. And it moves up from there to wisdom. That is, which part of the knowledge are you going to use because there's so much of it. And then it moves to a final phase, which is action, which is why we call it the action ladder.

You have to take all this stuff and actually do something with it. . . . The Internet and e-mail and all this stuff helps to do all that, unless you drown in it. But you still have to organize your business and the way you get knowledge and all the data in.

Frankly, most investors have been led – deliberately I might add – through advertising . . . to believe that if you have more data, you will be a better investor. Everything we know about neuropsychology and behavioral economics says that is absolutely not true. You can easily have too much data, and you become a poorer and poorer investor and you'd be better off buying mutual funds or index funds and looking at them once a year.

LBBJ: What strategies are Halbert, Hargrove using to weather the recession?

Hill: The first [step] was, as things started to deteriorate rapidly, we wanted to look at the mechanics of what we were doing, to make sure we didn't have any toxic assets in client accounts and weren't doing anything that we hadn't intended to do and all the mechanics of investing, including rebalancing, making sure you were disciplined and you had an investment policy, all those were in place. We did that for all client accounts. The second part was to look for opportunities in the chaos, . . . looking for other ways to invest, . . . and then finally, as we look out a little further, we'll be . . . [watching] out for inflation coming back, but that's not going to be for a while.

On the broader question, we have tremendous strengths here; our country is so strong in the economy as a whole, and I guess also, the character of the people, [that] we have great confidence we're going to come through this, and the future is going to look a lot different. However, because so much more of the growth in financial services and in the worldwide economy is going to be coming from other places . . . than has happened in the past, we have to adapt to that.

LBBJ: Do you think the $787 billion American Reinvestment and Recovery Act, or "stimulus bill," will help lift the country out of the recession?

Hill: The total is probably closer to $5 trillion when you [add] all of the bailout [money], . . and we don't really know how much of that will truly be expended and how much will be recovered, so that's a very difficult number. I'm cautiously optimistic. . . . I think the stimulus bill was necessary, [but] I think a lot of it will be misspent and of course won't actually end up being stimulus, in the sense that it's not spent in time. . . . Will it be very efficient? No. Will it be effective? Probably, yes. We've already seen some key indicators, such as the spread between Treasury [lending rates] and LIBOR (London Interbank Offered Rate) [has] narrowed. . . . That was the greatest symbol of the panic in the banking system, and that's come way back. Not to normal, but way back. We've seen housing seem to stabilize. . . . The declines [in unemployment] are getting less, so that curve is improving. So all indications we can see [indicate] that things seem to be getting better. That doesn't mean that they're going to turn around and we'll be back to what we used to think was normal. The increased savings rate will in fact keep us from growing as rapidly as we did in the past, there will be less leverage in the economy, [and] all these things will change the future course.

At the same time, we have to look and see that other economies are going to be changing the way we look at the world. Historically, we'd just say, "What's going to happen to the U.S.?" and that would be it. But realistically, we have got to say, "What's going to happen in Brazil? Russia? India? China?" All these other emerging markets that are contributing so much to growth . . . also contribute to export and import, our trade balances, our currency [and] everything else.

LBBJ: In addition to the recession, California continues to struggle with a budget crisis. Do you see things improving in the future?

Hill: California is one of the largest economies in the world, and it's run like somebody's city government most of the time. It's a very difficult governance situation that is exacerbated by the fact that we have [an] archaic process [and] we have the legislature that's not terribly professional and well-informed. We have a process of "if we don't like what the legislature did, . . . we'll go get a bunch of signatures and put something on the next ballot," so it's a really difficult situation. . . . I think what we need is really strong leadership.

LBBJ: What lessons can investors learn from convicted swindler Bernard Madoff's $50 billion Ponzi scheme that lured in so many people?

Hill: Most of that comes under the heading of affinity fraud. People want to get into a group and be part of a cool thing. [But] if you don't know what it is they're doing and somebody won't tell you, you [shouldn't] do it. You do not give money to people who maintain their own custody. That's an absolute red flag. You have a separate custodian [for the money]. For years, [Madoff] would provide phony [financial] statements to people. If they'd had a separate custodian like a Fidelity or Schwab, . . . all you do is compare your statements. . . . If you look at the headlines, all these [financial advisors] were people that basically were unindicted co-conspirators. They took Madoff and resold him to someone else and made lots of money doing it. They were getting management fees, and they were just turning the money over and didn't pay any attention, [but] they all pretended they did.

Russ Hill, president and CEO of Halbert, Hargrove/Russell, outside his Downtown Long Beach office on Ocean Boulevard, has been with the investment advisory firm since 1970. The 76-year-old company has more than 700 clients. (Photograph by the Business Journal's Thomas McConville)

I think the bigger damage to our [financial] markets has not been by the fraud perpetrated by people like Madoff; it's been the lack of understanding of risks taken and the damage done to all of us by the big investment banks and commercial banks that traded derivatives they didn't understand and lost many times what Bernie Madoff stole. . . . And he was actually turned into the [Securities Exchange Commission] years ago. . . . I guess the industry can learn from that, that the regulators don't do a very good job of protecting people.

LBBJ: Do you think there's a need for more regulatory oversight of the financial services industry?

Hill: There's a big hole in regulation. And that is, insurance companies are regulated state by state [while] financial services people are regulated depending on where they're registered, how much money they manage and how they do business. It's really an uncoordinated kind of system. The [Obama administration's] proposal to have a systematic risk [regulator], I think, makes sense. The problem is who's going to do it. When [Mary] Schapiro, who is the current head of the Securities and Exchange Commission, was head of the Financial Industry Regulatory Authority . . . and they audited Madoff, . . . he never made any trades. How come they didn't know that? Are they the people who're going to regulate us?

We'll probably end up with overregulation, but clearly deregulation by itself [doesn't work]. I think we need better regulators, more highly trained. I'm not sure we need a whole lot more rules. They need to enforce the ones they have. Most of the failure we had, interestingly enough, was because people violated known rules and the regulators didn't pay any attention. It wasn't that they needed more regulation; they needed more competent regulators.

LBBJ: What advice would you give investors in today's volatile stock market?

Hill: Follow basic principles of diversification. Let's say you decide to invest with Bernie Madoff. One principal of diversification is you probably would never have put more than 10 percent of your money with him. . . . [There's] people who say, "Well, I put all my money with him." Well, that's crazy; you shouldn't do that. Number two, look for an advisor to help you who sits on the same side of the table as you do. That means they are a fiduciary to you or they work on a fee basis or an hourly basis; they're not selling you assets. The third thing is, do your own risk allocation. Meaning figure what kind of reserves you need, how much risk you can take after you've put money aside to make sure you have enough that when the markets do go down, you don't have to take the money out. The fourth thing is pay attention. The easiest thing that people can do to protect themselves against fraud and also really poor performance is just look at your account statement once a quarter. ■