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Financial Advice Gleaned From a Day in the Hot Seat

By PAUL SULLIVAN

WHEN I started writing this column almost three years ago, one of my goals was to figure out what the wealthiest Americans knew and pass along those lessons to middle- and upper-middle-class readers.

This past Monday, I put that idea to the test, spending the afternoon in a Manhattan town house with eight wealthy men who are all members of an investment club called Tiger 21. I was there to hear an unvarnished critique of how my wife and I save, spend and think about money.

Each of the 180 members of Tiger 21 has a net worth of at least $10 million, pays $30,000 in annual membership fees and commits to spending one day a month with other members. Nearly all of them made their money — they didn't inherit it — and most are men.

I had asked to sit in on one of the group's signature sessions, the portfolio defense, but a few weeks ago, the members invited me to be in the hot seat. I jumped at the chance. Beyond looking at how money is invested, the portfolio defense is intended to force members to discuss their wealth in the broadest terms.

I had heard horror stories. One member was told he needed to lose a lot of weight if he was going to get people to invest in his new fund. Another was chastised for telling his children that he had lost his money in the financial crash so that he would not have to talk to them about his immense wealth.

Michael Sonnenfeldt, the founder of Tiger 21, used the term "carefrontation" to describe what happens in a portfolio defense. The assessments are meant to be direct, unsettling and possibly painful to hear, Mr. Sonnenfeldt told me. But the goal is to get members to think differently about what they are doing with their investments and about everything in their lives that is affected by their wealth, from their family to charities.

"It's not meant for the faint-hearted," Mr. Sonnenfeldt said. "This is a process that some people could clearly find offensive or discomforting."

What I experienced was rough, but it was also thought-provoking. The value to me — and to anyone given a similar opportunity — was that the members challenged everything about my assumptions on saving and spending. Here's some of what I took away.

OUR MISTAKES In the week leading up to this, I worked with Joel Treisman, an executive coach and the chairman of one of Tiger's 17 groups, to

gather up all of our financial reports.

I was confident that the group would think my wife and I were in good financial shape. We save a good percentage of our income. We don't have any debt beyond mortgages and a car payment. We probably spend a bit too much on food and pet care, but we don't run up credit card bills to do it.

The members were warm and welcoming as we filled our plates with poached salmon, grilled asparagus and buffalo mozzarella from the buffet. But as soon as we were seated, it was all business. And I was immediately on the defensive. There were two big surprises but also blunt advice and some thoughtful questions about our portfolio.

First, the surprises. The group agreed that we did not have enough life or disability insurance. We both have insurance that would cover about three or four years of earnings if one of us died. This seemed sufficient to get past a few years of sorting things out. The group disagreed. Going from two incomes to one would mean a radical rethinking of our life.

We needed more sizable policies to give us the freedom to sort through things. Though we both carry disability insurance, the policies are old and do not reflect our current income. They would also cover only 50 to 60 percent of our old base salaries. The members thought we should buy individual policies to add to this.

The second surprise was about our savings. We have been saving about 15 percent of our post-tax income. Alan Mantell, a lawyer who made his money in real estate, development and investment, said the issue was not how much we saved but how we thought about spending.

"You need to ask, 'What can I afford to spend versus what do I need to spend?' " he said. We could be saving more money for retirement — or in case something bad happens — if we cut back on things we did not really need, he said.

All the members agreed that we should sell our vacation condominium. "You need to become more liquid," said Thomas Gallagher, the former vice chairman of CIBC World Markets. "If something bad happens, it's easy to get rid of a dog walker; it's hard to get rid of a house in Naples."

Florida real estate is in a sad state, so I asked what they would do with an offer that was less than our mortgage?

"Take it," Mr. Gallagher said. "Write the check and be done with it."

As for our portfolio of stocks and bonds, the questions were more basic. Leslie C. Quick III, whose money came from Quick & Reilly, the discount brokerage firm, looked at our investments — 50 percent in equities, 34 percent in fixed income, 12 percent in commodities and real estate and 4 percent in cash — and wanted to know how our investment manager had done in the bear market. He also thought we should ask our adviser how he balances the risks in our jobs against those in our portfolio.

OUR SOLUTIONS Because I had parachuted into Tiger 21 for one meeting, I was taken aback by the group's brutal honesty. I walked out after three hours in a daze. Over the next couple of days, though, I concluded that the members had made some great points.

Some solutions were simple. We can increase our term life insurance for comparatively little money — $1 million of term life costs about $700 a year. Individual disability policies cost more. Barry Lundquist, president of the Council for Disability Awareness, said the yearly premium would usually be 1 to 3 percent of a person's salary, but the payout would still be limited to a percentage of that person's income.

As for our portfolio, I put the questions to our adviser, K. C. King of Emerson Investment Management. I liked that he did not sidestep the bear market question: Emerson's portfolios did better than the benchmarks in 2008, but they lost value like everything other than cash, gold and Treasuries.

Where I took comfort, though, was in how he thought about our portfolio. "We're very mindful that what we're managing for you and most of our clients is their core portfolio," Mr. King said. "If someone said from the Tiger group that this is fairly conservative and you're not taking big swings, we'd say you're right. This is the portfolio that we're trying to keep for your daughter's education and into your retirement."

The issue that Mr. Mantell raised about spending is the thorniest one. My wife and I are under no illusions that having a condo in Florida makes financial sense. Trimming spending in other places is easier: Walking the dogs ourselves, for instance, would save $100 a week or $5,200 a year.

In the end, though, there are such radical differences between the wealth of the Tiger members and most Americans that some of their advice could not apply.

Mr. Sonnenfeldt estimated that 90 percent of Tiger members had paid off the mortgages on all of their homes.

They also tend to view money as something to preserve rather than accumulate. Mr. Sonnenfeldt said members spent about 3 percent of their wealth annually, which allowed the principal to continue to grow. But at the $10 million entry level, this would mean $300,000 a year.

Perhaps most important, none of the members became rich by eating out less. They became rich by working in industries that paid extremely well or by building businesses that they later sold.

Still, what was best about the session was that no one pulled any punches. Their honesty forced us to think hard about the assumptions we were making. Yes, it was difficult. But really, who wouldn't want advice from those who have made it?