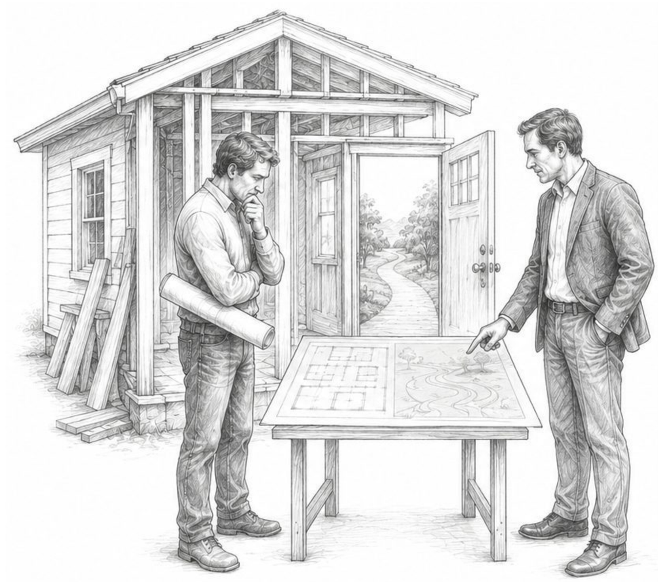


Trusting a Stranger with Your House (or Your Money)

How remodeling my house taught me what it feels like to knock on IMA's door

VITALIY KATSENELSON

My wife and I raised our three kids in the house we lived in for more than two decades. The idea of remodeling when we bought that house was foreign to us. At the time, we poured all of our savings into the down payment. We did a tiny remodel only after living there for fifteen years.

At the tail end of the pandemic, we decided to look for a new house. It took us three years and a few hundred homes to find the one. After we closed, I thought we had bought a perfect house and would move in within weeks. But my wife had a different vision.

We are taking a perfectly good 25-year-old house and spending 20% of the purchase price on a sizable remodel. Many parts of it are going back to the studs.

I had never done a big remodel. I knew nothing about construction, and I looked at this project as an investment research project. I learn for a living, but construction is not my domain of expertise. I felt completely naked, shocked by how little I knew and how many choices we faced just to start the project: how many landmines, how many wrong decisions, and how much deception we had to avoid.

Strangely, I have gained incredible empathy for anyone seeking help from a specialist in an unfamiliar industry – including anyone knocking on IMA's door (or that of any financial firm).

IMA clients are smart, usually highly educated people: lawyers, doctors, engineers, and businesspeople, many of whom have started their own businesses and, through hard work, have accumulated a sizable nest egg. They may lack specific domain expertise, and they are making one of the most important decisions of their lives (after whom they marry): who will manage their savings and how.

I am embarrassed to admit it, but now I get it. Many of them felt what I felt at the beginning of our remodeling project – a mix of confusion, fear, and paralysis. Should I hire a general contractor and a designer or manage the project myself? If I do hire someone, what criteria should I use to select them? Who should be in charge of the permits? The list goes on and on. I had to do a lot of learning to make these decisions.

Why I Didn't Do It Myself

We decided to go with a general contractor and a design firm because I did not want to learn (i.e., make mistakes) on my own house. Besides, I am not looking for a new career or a new hobby; this is the only house I am going to remodel, so the mistakes I would make from inexperience are not going to compound into profitable future learnings.

Most importantly, the more I learned about what it would take to do our remodel, the more I realized it would be a significant time and energy suck, and would disrupt my daily life. Of course, not doing the hands-on management did not absolve me from needing to acquire high-level knowledge about the project. I learned a lot in the process, which I am sure will help me in my primary activity, namely investment research.

The most important decision in this whole process was who we would hire. I interviewed a dozen contractors and designers (Houzz.com and referrals from friends were great resources). The new house is a ten-minute walk from the office, so I'd stack interviews after 4 p.m., two or three hours a day.

During these interviews, I tried to talk as little as possible. I asked questions and listened – not just for the answer but for the thoughtfulness behind it. That was not much different from interviewing corporate management, something I do daily. All my conversations started with *I really don't know anything about this, so I am going to ask you a lot of basic questions*.

The same logic applies when you interview someone who will manage your money. There are no dumb questions – none! You are not expected to be an expert in our industry. You are looking for one.

As a result of listening, I learned something from almost everyone I talked to. From the competent ones, I learned new things; from the incompetent ones, I learned what incompetence looks like.

Four Key Qualities and the Tunaman

When you hire anyone, you are looking for four qualities: focus, character, incentives, competence. I coined a term for focus: a tunaman. It is the most distinctive of the four, and the one I'll start with.

I am a huge fan of the documentary *Jiro Dreams of Sushi*. I love it so much I've written about it in two of my books (which is why it may sound familiar). It is about Jiro Ono, who runs the first sushi restaurant in the world to earn three Michelin stars. Jiro dedicated his life to creating the best sushi possible and has been making it for over seven decades. Sushi is his obsession. Jiro is so highly regarded that the prime minister of Japan took President Obama to Jiro's restaurant during Obama's 2014 visit to Japan.

Jiro's restaurant is a hole in the wall, or to be exact, a hole in an underground subway station in Tokyo. It has only ten seats. The wait for a reservation ran into months. In fact, the restaurant was later dropped from the Michelin guide because it became impossible to get one.

The restaurant serves sushi and nothing else. In the documentary, there is a line where Jiro explains that through trial and error over the years, he figured out that octopus tastes better if you massage it for exactly forty-five minutes. That is the kind of obsession I am talking about.

His restaurant is more than just a business. It is his life's work and his identity. Our identity is who we are and how we see ourselves – the values and internal descriptions that are deeply personal and which we hold dear. We are often the only ones who know them, and even then it might take many sessions with a therapist to identify them.

This alignment of activity and identity is rare, and when you meet people who have it, hold on to them. People with this alignment are not doing things for a paycheck. In fact, to avoid misalignment, they will sacrifice the paycheck to preserve it. If our activity is fully aligned with our identity, then we have soul in the game.

There is another story from the documentary that stood out to me.

Jiro only works with the best suppliers to source his ingredients. He buys tuna from only one guy. This guy specializes in identifying the best tuna. He goes to the Tsukiji fish market (then the largest in Tokyo), where the daily catch is brought in, and chooses the best tuna for Jiro. He doesn't buy octopus, yellowtail, or any other fish. Just tuna. He knows more about tuna than anyone else, and according to Jiro, he sources the best tuna there is.

I loved this story so much that I coined a term: tunaman. I want to work with a tunaman (or a tunawoman). Jiro is a tunaman too. His single focus is sushi. Focus, narrow specialization, and a somewhat unhealthy obsession – that is what I am looking for in anyone I hire.

Warren Buffett described this obsession perfectly in a story he told about a deeply religious Catholic tailor who saved for years to make a pilgrimage to the Vatican. Upon returning, eager parishioners asked him what the Pope was like. The tailor replied with hyper-specific professional focus: "He's a forty-four, medium." That's the obsession you want in the people who are managing your money or remodeling your house.

When I was choosing a general contractor and a designer, I paid close attention to this. We met designers and general contractors for whom it was a part-time gig sandwiched between other activities. The ones we chose had a somewhat unhealthy obsession with their craft.

Let's talk about my industry. It is large and consists of registered investment advisors (RIAs) like IMA, financial planners, insurance salesmen, brokers, financial advisors, and asset managers.

Some of these people do the same thing, some do multiple things, and some firms do all of the above under one roof. Even the custodians that hold our clients' assets, such as Charles Schwab and Fidelity, offer a mix of these services. Most of them are octopus-salmon-yellowtail-uni-crab types, not tunamen.

Many are in the business of selling products under fancy titles that camouflage what they really do. Take financial planners. Some are really insurance and product salesmen in disguise, who, under the pretense of giving you financial planning advice, are going to sell you an annuity (or other financial bomb) that charges enormous fees and may do more harm than good. Imagine if used car salesmen had a new, elevated title: *mobility planner*.

But then there are truly exceptional planners who charge a flat fee, dig through your financial and retirement situation, and help you plan your future. Because the fee is flat, their compensation does not depend on whether you buy insurance or any other product (we'll discuss incentives in greater detail later).

When you meet these people, ask how they spend their time – on research or on sales? If it's the latter, they are salespeople with a fancy title. And if they do many things, how good can they really be at all of them?

Legally, IMA falls under the RIA moniker, but in reality, we are more like an asset management firm. We have chosen not to provide financial planning, sell insurance or annuities, offer tax advice, or sell products of any kind. None! Not because those opportunities wouldn't enrich us (maybe they would, maybe they wouldn't), but for a very selfish reason: I love investing and am obsessed with it, and doing the other things I mentioned would feel, to me, like a trip to the dentist.

Not Your Traditional RIA

Focus tells you what a firm does. Character is often revealed in what you won't do. Unlike a traditional asset management firm, we don't want to become big. Let me explain by taking a detour into Swiss watches and watchmakers. I have a mild obsession with them, not as a collector but as an admirer of the last non-digital frontier of mechanical art.

The Swiss watch industry exports roughly fifteen million watches a year. Rolex, the largest and one of the most well-known global brands, produces about a million.

Though Rolex was the company that initially got me interested in the industry (I was researching one of the stocks in our portfolio – one of the largest Rolex watch dealers), my interest quickly shifted to smaller "micro" watchmakers who make fewer than a thousand watches a year – some just a few hundred.

Mechanical watches have three elements. The mechanical design: the intricacies of the power plant, a tiny city inside that little case that manufactures time. The art: the design of the watch. And the humanity: the people who make these watches, their relationship with watchmaking, not just the art but the business of creating art.

I found a connection to these creators. Many of them left large watch companies to start their own, not because of the wealth it would bring (that was not their primary motivation) but because they wanted to create their own art their own way.

They are often called independent watchmakers. It is an appropriate name because independent thought goes to large companies to die: the larger you get, the larger the audience you have to appeal to, and the more your goal shifts from creating art to pleasing the lowest common denominator of your market. Little by little, what you wake up in the morning wanting to create gets watered down by the pressure of broader appeal.

One Swiss watchmaker I particularly admire is MB&F. The company was founded by Max Büsser, someone I hold in high regard. Max had a very successful career working for large Swiss watch companies and helped turn two of them around. Then, in his late 30s, he decided that he was making watches he did not particularly like or want to wear. He quit his job and put all his life savings into MB&F.

Max is the Picasso of the watchmaking industry. Picasso first mastered all the rules of traditional art, and then completely broke them. Max did the same: he spent years inside the traditional Swiss watch industry, learning the craft, and then broke centuries of tradition and rules about how a watch should look. MB&F watches are a pure expression of Max's creative genius: they range from a bulldog to a spaceship to a jellyfish to a Transformer robot.

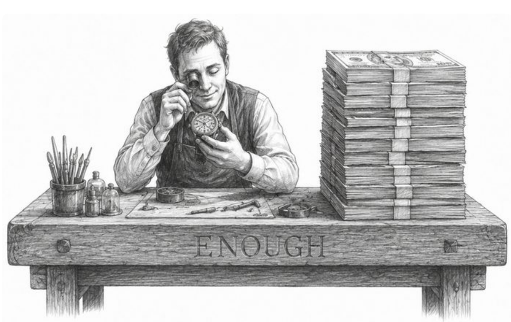
It took fifteen years for MB&F to become an overnight success. Today, there is a multiyear wait to get an MB&F watch; the company makes fewer than 500 a year.

Each watchmaker cradles a watch from start to finish and is treated like an artist. They are given as much time as needed to assemble it; for some it takes two weeks, for others a month. There are no spreadsheets tracking productivity. There is only one thing expected: quality.

What fascinated me about Max is that in order to make the watches he wanted to make, he had to build a special kind of company: one that would take creative risks and put the humanity of watchmaking above productivity and thus above profits.

MB&F prizes pride over profit. In every decision, the people at MB&F ask themselves one question: Will we be proud of this at the end of our lives? For a company devoted to three-dimensional mechanical art, the answer often comes at the expense of profit, because for them the journey takes precedence over the destination.

There are so many things I admire about Max and MB&F, but I brought you on this detour to share one word: enough.



Wanting more is likely a Darwinian feature of humans and innate to our programming. It spreads from houses, to salaries, to the size of our cars. We always want more. I am not breaking any new ground here. The words "rat race" were coined long before I was born. We often want more for the sake of wanting more, at great personal sacrifice to our spouses, children, and extended family.

But what about corporations?

I spend most of my waking hours analyzing companies trying to achieve "more": higher revenues, higher profits, always more. Independent watchmakers broke all my preexisting corporate mental models.

MB&F and a few other watchmakers have insatiable demand for their watches, but they limit their production. This broke my capitalist brain. Why would a company leave tens, maybe even hundreds of millions of dollars on the table?

The pragmatic analyst in me recalled a luxury-strategy playbook: always produce less than demand. Watches, especially those made by independent watchmakers, are a luxury good, and I see this behavior among many of them, even when they have orders eight years out.

The counterexample is Rolex. It is one of the most respected brands in the world and produces incredibly high-quality watches, but at a scale that requires it to appeal to the "average" luxury watch consumer. Rolex's process of making a watch is not much different from a Ford or Porsche assembly line building a car: there is plenty of mechanical excellence, maybe even a tiny bit of art, but the humanity has been displaced by soulless machines.

Max Büsser explained why he limits his production: to make more watches, he would have to hire more people and more management, which would add bureaucracy and communication delays while the art and creativity would slowly fade away. The same is true of Jiro. As I mentioned, his restaurant is booked six months out, but he still has only ten seats.

Neither Jiro nor the independent watchmakers are enduring financial struggles. They run very profitable enterprises. But they have figured out what few people, and even fewer companies, ever do: enough. Money is secondary to them. They put the art, the ability to do what they love the way they love it, above everything else, knowing that "more" comes at the price of "less" art.

Back to the investment industry. It sits at the intersection of art and craft. Investment firms are run by perfectly normal, ambitious capitalists who know only one mode: grow. There is absolutely nothing wrong with that, but at a certain point, growth becomes a singular obsession, and the love of the art starts taking a back seat.

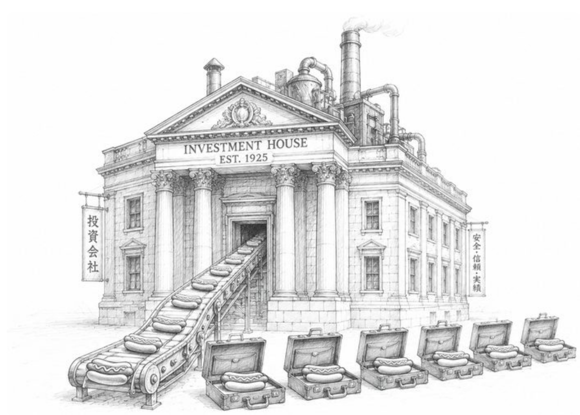
As a firm gets larger, it starts serving too many masters. The art and the clients don't even get the back seat; they end up in the trunk. To keep growing, the firm must appeal to an ever-larger common denominator of clients, many of whom it would once have turned away, and it begins compromising on the investment principles it once held dear.

These firms start creating products, many of them ticking time bombs, just to feed the demand of the moment. Investment decisions are driven by short-term competitive pressure.

I have heard many horror stories in which portfolio managers at large firms are told by their superiors to buy bubbly, overvalued stocks simply because those stocks have been going up and leading the market. Underperforming on the upside is lethal to retaining assets, so the logic becomes: if the bubble bursts and a huge chunk of the investment is lost, at least "we" die together with our competition. But "we" is just the clients, and what is lost is just other people's money.

At some point, that quaint place where the art of investing was placed on a pedestal turns into a hot dog factory of financial products. The love for investing is dead; it is an investment firm in name only, a machine manufacturing, marketing, and selling financial hot dogs. And, as is typical with hot dogs, nobody knows what goes into them except the people who make them – and they wouldn't eat them.

If only these companies learned one word: enough.



What is enough for IMA?

I've been obsessed with this question. We have invested a lot of time and resources into technology to handle the manual, low-value tasks. Our research is scalable; there are upper limits set by the liquidity of the stocks we invest in, but we are nowhere near it being an issue.

What scales the least is client service, and that is the one thing we will not compromise on. So as time goes on, we will put the brakes on our growth: stop accepting new clients, or accept fewer of them. Of course, this will not impact our existing clients.

I have structured my life the way I wanted. There is a saying: do what you love, and you'll never work a day in your life. I am focused on the not-working part. Research is my love and my focus. In other words, IMA is a tunaman. We do one thing. And we know what enough is.

The Unfortunate Summer House Lesson

Incentives drive human behavior. This is a natural part of our genetic programming for self-preservation, encoded deeply in our subconscious. In fact, it is so deeply woven into us that at times we are not even aware of it. Charlie Munger famously said, “Show me the incentive, and I will show you the outcome.”

In every professional relationship, I want to make sure incentives are aligned to produce the desired outcome.

I learned this lesson young, when I was ten. My parents were terrible businesspeople. My father was a scientist and an artist; my mom was a physicist. My family was building a “dacha” (a country house) near Petrozavodsk, about five hundred miles from where we lived. The people they hired to build it came highly recommended; they were relatives of a close friend. They asked for full payment up front. My parents agreed. Ten months later, my mom took a fifteen-hour train ride and discovered that very little had been built.

My father and I met her at the train station on her way back. There was little we could do. The builders were gone, and the money was spent. I remember how sad my mom was.

The human condition is universal, whether in Soviet Russia or the capitalist United States: when you pay someone up front, their will to work and to do a great job declines. There are exceptions, but you are fighting human nature when you pay in full up front. This is an extreme example, but the point stands: incentives matter. Make them work for you, not against you.

Almost every general contractor I interviewed charged a percentage of the total project cost (labor and materials), usually around 15-20%. I was puzzled by this structure, because it gives the general contractor perverse incentives to hire expensive labor (subcontractors) and to buy the most expensive materials.

The general contractor I hired is someone I have known and been friends with for a long time. I had to break a rule I try hard not to break: don’t work with friends (you’ll have to read the chapter “Pain, Opera, and Investing” in *Soul in the Game* to find out why).

With the general contractor we hired, we agreed to a fixed-fee structure. I asked him how much he needed to make on the project, and we agreed on a fair number. I don't look at these transactions as a zero-sum game. I don't want to feel like I took advantage of someone.

We divided the project into twenty parts, by room (the kitchen, the bathroom, the living room, and so on), all the way to repainting the house. He would get paid only upon the full (100%) completion of each phase, once the designer and I signed off that the work was done according to plan. No one wants a 90% completed bathroom.

I considered penalties and bonuses tied to speed, but too much was outside his control, so we skipped it. A good chunk of his fee would also be paid only after we had lived in the house for a month and all the little deficiencies we discovered had been resolved.

After more than a decade of running IMA and setting up employee incentives (I am obsessed with them), I have learned this: you will never have perfect incentive alignment, so you just do your best. You also want incentives to be as simple as possible; if they become too complicated, they become counterproductive.

Back to the financial industry.

Whomever you choose to work with needs to have financial alignment with you. If someone only makes money when they sell you something, and they have kids' braces and college to pay for, they will keep coming back with something to sell, whether you need it or not.

The ADV is a good place to learn how an RIA makes money. IMA only makes money on management fees. We charge a percentage of the assets we manage. This is our only source of revenue from clients. Our management fee usually ranges from 1% to 1.5%, depending on the size of the relationship (higher for smaller accounts, lower for larger ones). We can only serve a limited number of clients, so our minimum relationship size is half a million dollars. Clients with assets above $2 million pay a flat 1% management fee. Our fee structure is disclosed and discussed in greater detail in our brochure and ADV.

We are not brokers, and we will never call you to pitch a stock idea for a commission. We rarely (almost never) buy financial products like equity mutual funds, which charge their own management fees. The bulk of our investments are in individual stocks, so we don't pass on fees on top of fees. IMA's revenues – the fees we collect – go up and down with the amount of assets we manage. This aligns our interests, but not perfectly: we still collect management fees if clients' assets decline – just less.

The deeper alignment stems from one important fact: all of my family's assets and much of IMA employees' assets are managed by IMA. My only assets are our houses (we haven't sold our old one yet) and a portfolio IMA runs as if I were just another client. In fact, my family is one of IMA's largest clients. When my clients lose money on a stock, so do I, my wife, and my kids.

Competence: What Performance Doesn't Show

Competence is the last of the four qualities. You'll rarely find an incompetent tunaman, so much of it is already implied; focus tends to drag competence along with it. But competence still has to be verified, and performance is where most people look first.

You won't find our performance in the brochure. For Securities and Exchange Commission (SEC)-specific reasons, you have to ask us to send it, which we'll gladly do (you can do that here).

The SEC also spells out how firms like ours compute and disclose performance. This is terrific because it makes performance meaningful and comparable across asset managers. In our case, since we don't have just one fund (a product) but provide a service, all accounts look slightly different, so our performance is aggregated into composites.

A composite is an average representation of our performance across all clients who share a similar investment objective. In plain words, the performance shown to you is computed by third-party software that tracks all of IMA's accounts (over which we have full discretion, in accordance with industry standards). It is a representation of the returns the average IMA client achieved in the past. It is not a promise of what we'll do in the future. We simply don't know.

What performance doesn't show is the true risk taken to achieve those returns. Let me give you a simple example. You have two investors. One achieved a return of X by owning just one stock. The other achieved an identical return, X, from a diversified portfolio of twenty stocks. Which one took less risk?

Their returns are identical, but the risk was not. If history had taken a different turn and the company behind that one stock had been hit by a hundred-year flood, the outcome would have looked very different. This is an overly simplified example, but the point is important: you want to dig deeper into investment philosophy, portfolio construction, and actually read the investment analysis behind past decisions. Some companies provide greater disclosure than others.

The real test of competence isn't how a firm performs when the sun is shining – it's what happens when the sky goes dark. During the financial crisis, when the world seemed like it was melting down one bank at a time, I got a call from a panicked client. We went through every stock in the portfolio together. The conversation went something like this: *AIG may or may not get bailed out, but this health insurance company is not going anywhere; this defense company will still be making planes*. We went through each company in their portfolio one by one.

By the end of the conversation, the client's blood pressure was back to normal. Surprisingly, it was therapeutic for me too.

I learned a great lesson. The beauty of what we do is that we own real, tangible businesses, not an abstract concept called "the market." Each company is studied, analyzed, and valued with great care before it goes into the portfolio. Are we going to be wrong on some of them? Of course. But they are real businesses, picked for their quality and undervaluation.

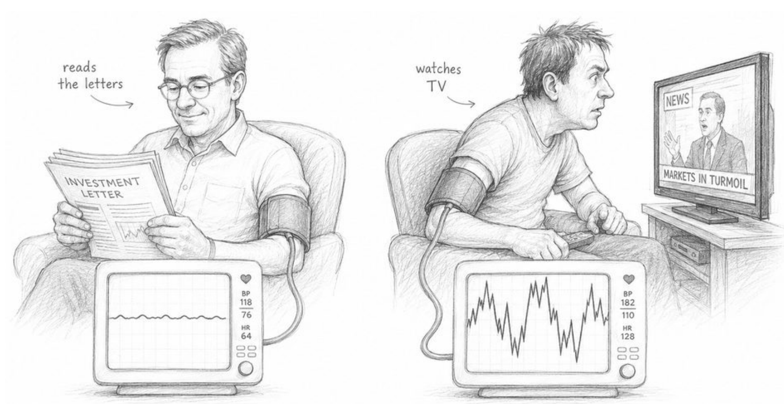
If clients start seeing their portfolios the way I see them, the volatility of their blood pressure declines. I physically cannot spend an afternoon on the phone like that with every client, but I can give every client what we found together on that call through in-depth letters. I dedicate my scarce time to investment research and share my thinking through writing. I don't have many hobbies, and I don't play golf or watch sports. I write from five to seven every morning, and after I drop my youngest daughter at school, I come to the office and stay until dinner. Every hour is organized around either research or writing.

IMA clients receive this thinking in comprehensive, individualized letters several times a year (technology helps with the individualization). These letters have at times run as long as thirty pages. In them, I walk through the individual stocks they own, the ones we bought and sold, and my read on the market and the economy. Our aim is not just to grow clients' wealth but to do so without taking life-changing risks – reducing the volatility of their blood pressure through clear and honest communication. My goal is for clients to always know what is happening in their account and, most importantly, why.

IMA is very transparent about our investment philosophy. I wrote two books on the subject and share excerpts from our client letters all the time. You can read them on investor.fm, or listen to our podcast.

Our disclosure of our research is more selective. Legally, we have to disclose our holdings of US stocks with a delay (IMA's 13F), but US stocks are only half of our total portfolio (the rest are international holdings). We are very selective about sharing our research for two reasons. First, it is our intellectual property. Second, we find that people often mindlessly copy what we do, and that may not end well for them.

Do Your Homework



I've just discussed IMA through the lens of four qualities: focus, character, incentives, and competence. But you shouldn't take my word for any of it. Here's how to check.

Luckily, unlike in the construction industry, providers in mine are heavily regulated, which makes verification easier. There are many regulatory bodies, but the main one is the SEC. The SEC sets the rules and disclosure requirements for companies like IMA, violations of which are punishable civilly and criminally.

The SEC, like many government entities, is highly bureaucratic and …I love it about as much as I love anyone who can make my life very difficult. However, in the process of remodeling our house, I developed a strange appreciation for the SEC and for what regulation has achieved in the financial industry: it standardized many important things, especially disclosure.

I received a dozen bids from various contractors and found them opaque and impossible to compare. Some hid their fees inside subcontractor and other charges. In one case, the contractor's fee amounted to 50% of the project cost (AI is a great tool for comparing bids).

Companies like IMA that are registered with the SEC have to provide disclosure through an ADV, a standardized disclosure document in two parts (the second part is typically referred to as "the brochure"). I personally don't care for our ADV because, unfortunately, it is mostly written by lawyers; it is boring, dry, and legalistic, all to comply with strict SEC rules. But the ADV still has a lot of important information.

What you are looking for in the ADV and in the brochure are similar but different things. The ADV tells you whether the advisor discloses all their activities – in other words, what services they provide, their conflicts of interest, and any regulatory and legal history.

This part is important. The SEC periodically audits companies like IMA. They comb through our books looking for proper disclosures, nefarious activity, and the like. If the firm or its principals have had any regulatory or legal problems, these have to be disclosed in the ADV. You probably want to know about it. Neither IMA nor its principals have had any (parking and speeding tickets excluded), but don't just take my word for it – check our ADV.

Though we are legally required to provide it to prospects and clients annually, and we do, most people don't read it. I don't blame them. My advice: read it, but do it in a smart way. Ask AI to cut through the boring language and give you the key takeaways in human-friendly terms. I'll attach a prompt with key questions to ask at the very end.

Then you want to read the company's brochure. I wrote it, trying to explain what we do in a friendlier way, as if my aunt were reading it. Just because it is not boring doesn't mean I can make empty promises or make stuff up. If (more like when) we get audited by the SEC, they'll look through our brochure as well. You want to make sure the brochure doesn't contradict the ADV. As you read the brochure, write down your questions and ask them during the interview.

Finally, when picking an RIA, ask for references and talk to as many people as you can. Just like reading hotel reviews, look for the common thread.

We did not want to inconvenience existing clients by having them bombarded with reference calls from prospective clients, so instead we asked clients to review our services. This process is tightly controlled by the SEC. We have to share all testimonials (not just the good ones); the only thing we edit out is any mention of specific returns, which SEC rules don't allow us to share. You can read the testimonials here.

Criteria for Mutual Fit

During the remodel, I interviewed some wonderful people who passed all the filters above but still were not the right fit for what we needed. Some specialized only in flipping homes (buying them, fixing them up, and selling them fast), with a focus on speed, not quality. Others mostly built new homes, which is a different skill set from remodeling. Some great people are simply not the right fit, and that is okay.

The same applies to whoever you hire to help with your finances. IMA is not for everyone. In fact, we tell prospective clients so upfront, because we require three things of them:

1. A long-term time horizon, at least seven years. If the money is earmarked for your daughter's wedding in three years, neither you nor anyone else should invest it in stocks.
2. Believe in our philosophy. We are in the business of getting rich slowly by owning stocks we intend to hold for a long time. We are not going to predict the market's next move or jump in and out of stocks. Clients who expect that will be disappointed.
3. Do the homework. For the relationship to work, clients have to read my letters. Otherwise, they'll end up miserable, buying high and selling low.

At the core of my identity is being net positive for others, bringing quality and kindness. Those two words are my north star; I have written about this before. If a client cannot meet the conditions above, IMA may end up being a net negative for them. That is why we try to be as transparent as possible about what we do and how we do it. I don't want anyone to be surprised. But if what you've read here resonates, I'd love to hear from you.

* * *

The AI Prompt

Download our ADV & Brochure and give this prompt to your favorite AI model.

> I'm considering hiring this firm to manage my savings, and I'm not an expert. I'm pasting their Form ADV (Parts 1 and 2), their brochure, and anything from their website. In plain English, tell me:
>
> 1. What do they actually do, and do they focus on one thing or many? I want a specialist, not a generalist.
> 2. How do they make money? List every revenue stream, including any commissions, product sales, or payments from third parties, and flag any fee charged on top of another fee.
> 3. What are their conflicts of interest – the places where what is good for them may not be good for me?
> 4. Any regulatory actions, legal trouble, or disciplinary history for the firm or the people who run it?
> 5. Do these documents contradict each other or the website anywhere?
>
> Then give me a short list of pointed questions to ask during the interview, especially about anything vague, missing, or that seems to benefit the advisor more than the client.

Answers to a Few More Questions

Why not just buy a low-cost index fund?

I am not sure how objective I can be in answering this. It is like asking a barber whether you need a haircut, so take my answer with a grain of salt – and given my bias, maybe a whole spoonful.

First, as I type this (June 2026), the market is trading at one of the highest valuations in the last century. Historically, when you bought stocks at these valuations, you faced decades of almost zero returns. I wrote two books on this specific subject. When you buy a broad-market index fund, you are buying this overvalued market.

Second, most investors underperform the very index funds they hold because they buy high and sell low; their realized returns end up well below the funds' reported returns.

Finally, how you feel matters. The volatility of your blood pressure counts too, especially when the stock market goes through its usual roller coaster.

Is IMA a fiduciary?

We owe our clients a fiduciary duty. We have to put our clients' interests above our own. And we do.

But let me explain why this question matters. The financial services industry runs on two standards: suitability and fiduciary. Brokers and many "financial advisors" only have to answer one question: is this product suitable for you? An annuity that pays them a 7% commission can be perfectly "suitable." Some advisors are dually registered; they are both broker and advisor. They are fiduciaries when giving advice, and then, mid-sentence, without telling you, they switch into salesmen of financial products.

This gets complicated fast. My suggestion: pay attention to incentives.

There is a kosher hot dog brand, Hebrew National (yes, hot dogs again), with a brilliant slogan: "We answer to a higher authority." We do the same thing at IMA. We'll do everything the SEC tells us to do, but our standard is higher than that. My higher authority is the same as Max Büsser's: me at the end of my life, looking back, wanting to be proud of what I did.

Let me give you one example.

In early 2020, IMA launched a dividend investment strategy. The stock market had crashed, and interest rates went to almost zero. We could buy a portfolio full of super high-quality businesses which were cheap and paid 5 to 6% dividends. Then the stock market rebounded, and this opportunity ended up being short-lived. A few years later we closed the strategy to new accounts.

As interest rates went up and money market funds started offering 4% yields, this strategy became less and less attractive. Also, as stocks appreciated, many went from being undervalued to overvalued, so we sold them, and the cash (money market) portion of the portfolio kept growing.

We contacted our clients and informed them of the situation: we simply could not justify charging them a fee for holding money market funds, and while we kept looking for stocks, we were not sure this opportunity to reinvest their large and growing money market balance would present itself in a reasonable timeframe.

We gave them several options. First, keep the portfolio and remove us from management: IMA stops charging management fees, and they keep the stocks and keep collecting dividends. Second, transfer the portfolio to our core active value investment strategy. Third, we lower their fees by half for a year, in the hope that opportunities come back. It was completely their choice.

We had zero external pressure to do this. We had a lot of happy clients. But two factors drove this decision: my future self started to feel uncomfortable with my present self, and I was a client in this dividend portfolio too. Financially, IMA lost revenue on this decision, but I slept like a baby. I did not think of it at the time; as Steve Jobs said, you can only connect the dots looking backward. But it turned out to be a great lesson for my colleagues: we put clients' interests first.

Where does my money sit?

We have full discretion over clients' accounts, but we don't hold the assets. Two companies do that for us, Charles Schwab and Fidelity, which have departments designed specifically to work with firms like ours.

If you already have an account at one of them, one small change lets us start managing it. If your accounts are elsewhere, we handle the heavy lifting of transfers and all the paperwork. Our folks are very good at that.

You keep complete access and transparency: you can log in as if we were not involved and see everything in the account. IMA can only do two things: enter buy and sell orders, and charge management fees. Schwab and Fidelity have strong guardrails that protect clients from rogue behavior.

What about taxes?

We don't do taxes, but our client care team can offer light suggestions (not advice; we ask clients to double-check with their CPA). Most clients who come to us already have a financial plan or don't need one; if they do, we refer them to someone we trust and respect, someone for whom that is all they do (we receive no compensation for the referral).

In our investing, we adjust our strategy when a client's funds are taxable: we aim to minimize short-term capital gains and generally hold stocks for the long term. It doesn't always work out, but we try.

What happens to my money if something happens to you? What is your succession plan?

This would be unfortunate for my family and the people who love me and care about me. I hope I have a lot of those. From a client's perspective, though, this is one reason we don't take custody of your assets and invest only in highly liquid securities. Your money sits in an account in your name at Schwab or Fidelity, so you can leave it as it is, transfer it elsewhere, or have someone else take over the management. You are never locked in and never dependent on my being here.

Staying deliberately small is part of the answer, not a risk to it. Because we are not chasing assets, I can invest my time in research rather than in gathering more money to manage. Over time, I intend to widen our research bench so my colleagues can continue managing your money, if you wish. In the meantime, I eat healthy, exercise, and avoid risky activities. Warren Buffett was running Berkshire into his 90s.

How big is your research team?

On paper, two: our analyst, Max, and I. That is a deliberate choice. We could hire five analysts if we needed to. I used to have two analysts and found that, given the way we do research, it was one too many.

But our real research team is far larger than two. Over the years, I have built a global network of investors – geeks like me – and we exchange ideas all the time. Since 2011, IMA has hosted a research conference nearly every summer in Vail, Colorado, where we get together and share ideas. That sharing doesn't stop when the conference ends; it continues all year long.

AI has also become an incredible tool that helps us go deeper and wider. It is not going to think for us, but it helps us think better. We have a few software engineers helping us integrate AI into our research process.

Who will I be working with?

I am not the person clients will hear from day-to-day. The research team (including me) is obsessed with doing the best research possible, so I get on the phone only by special request, keeping my hours focused on where they create the most value.

The day-to-day care comes from our client care team, whose single obsession is taking great care of our clients. Though we don't hold ourselves out as providers of broad financial advice, everyone on the care team is highly educated in financial planning and overqualified for the role, so they help clients well beyond the mechanics of moving money, offering pragmatic guidance on financial and tax matters. They go far above and beyond what is expected, and you'll see it in their testimonials.

If you want an advisor who calls just to chat about your dog and your golf game, I am not that person. If that makes IMA a poor fit for you, that is okay.

What do you do when the market crashes?

The last time this happened was the early weeks of the pandemic. I worked sixteen-hour days – not buying and selling stocks, but writing to clients several times a week.

When a crash is caused by some exogenous event, we analyze its impact on each business we own. But for each company in the portfolio, we have already conducted extensive research. We buy stocks not for the days when the sun is shining and the weather is perfect, but for the days when it rains, and for the rare occasion that rain turns into a hundred-year flood.

For the most part, a market event is just another calm day at the office for us. We may work slightly longer hours, because that is when we see more buying opportunities. And because clients still need reassurance, I temporarily increase the cadence of my writing.

How easy is it to start?

We guide you through the whole process of opening an account, which may include transferring accounts from another custodian (the financial institution that holds the assets).

Once the account is funded, we'll start managing it. Once fully invested, a portfolio holds around 20 to 30 stocks. It won't be fully invested on day one (something else I explain in our brochure). A few days after we make the first trade, you will receive a PDF with a write-up on every company we bought for your account.

Is there a lock-up period?

One of Netflix's many genius moves was making it easy for subscribers to cancel their service. You did not have to navigate a labyrinth to find a cancel button or spend hours on the phone. This actually improved subscriber loyalty and pushed the company to keep producing content people wanted to watch.

IMA makes it easy to come and go. If you decide to end the relationship, all we ask for is an email or a phone call. That is it. No lock-up. We'll even help you offboard.

To start, read the brochure and our ADV (with AI's help if you need it). Then email or call us, and if we are a good fit for each other, we'll take care of the rest.