ADVISOR PROFILES

Peter Mallouk Runs a Family Office for All

Peter Mallouk, Barron's No. 1 independent advisor, offers affluent investors the kind of service usually reserved for the super-rich. Why he's liking emerging-market stocks.

By STEVE GARMHAUSEN
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You won't find many top-flight financial advisors who share office space with a dentist—but for Peter Mallouk, it's part of a success story.

Back in 2007, Mallouk's firm bought a 30,000-square-foot building in Leawood, Kan., intending to lease most of it. After inking the dentist as his first tenant, Mallouk realized his business was growing faster than anticipated. "We ended up needing all the rest of the space," says Mallouk, 44, who led *Barron's* list of top independent advisors last year.

The swift growth of Mallouk's Creative Planning—its assets have grown from $50 million to $12 billion in a decade—has much to do with its business model. Mallouk and his 130-person team provide a high-end suite of services to clients with typically about $1.5 million to invest.

Long Horizons: "When we buy, we do so with the intention of keeping it forever," Mallouk says. *Photo: Jason Daily for Barron's*

"We're basically a family office for the multimillionaire next door," says Mallouk, a lifelong resident of the Kansas City area. Like family offices for the ultrarich, Mallouk's team offers everything from financial planning and customized investments to funding trusts and evaluating which health-insurance plan a client should choose.

MALLOUK'S INVESTING APPROACH is based on looking beyond gross returns to the amount of money his clients keep after fees and taxes. To that end, he strives to keep portfolio turnover—and its attendant fees and taxes—as low as possible.

"When we buy, we do so with the intention of keeping it forever," says Mallouk, who mainly uses low-cost exchange-traded funds, the occasional mutual fund, and individual equity investments. One of his rare sales came this summer after Kinder Morgan Inc. (ticker: KMI) ditched its master-limited-partnership format, diminishing its usefulness to his clients.

On the other hand, he has held the likes of Berkshire Hathaway (BRK.B) and Energy Select Sector SPDR (XLE) through thick and thin over the years. Though he doesn't chase winners, Mallouk is diligent about regularly rebalancing client portfolios—selling appreciated asset classes and buying lagging ones in order to return clients' portfolios to their target investment mix.

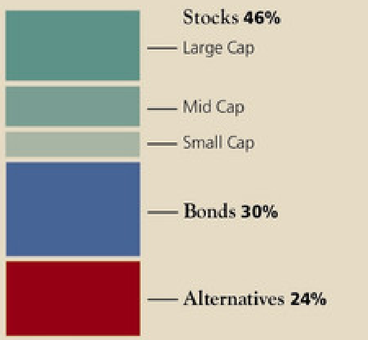
Portfolio rebalancing is the sort of routine maintenance that many investors fail to do, or do too infrequently, says Mallouk. He rebalances more frequently when opportunity appears—when stocks were cheap after the 2008 crash, and when bonds were attractive during the European debt crisis, for example.

"We don't wait for the end of the year or the end of the quarter to rebalance," he says. "We are aggressive about buying through volatility, whenever it happens."

The Strategy

Location: Leawood, Kan.
Clients: 8,000
Typical Account: $1.45 million

Mallouk uses both stocks and alternative assets like master limited partnerships to get substantial equity exposure.



Note: All percentages based on average allocations.

Mallouk, a lawyer as well as a financial advisor, started his career helping other advisors handle estate-planning for their clients. In that role, he noted that most advisors were too focused on gross investment returns—they paid little heed to taxes or to helping clients achieve specific financial goals. And they often charged sales commissions and sold in-house investments, which Mallouk saw as a conflict of interest. In 2004, he purchased a financial-planning boutique and went about creating what he calls a better kind of business.

Mallouk doesn't care much for conventional wisdom. He dismisses, for instance, investment legend John Bogle's rule of thumb that investors should subtract their age from 100 to determine their appropriate equity allocation. A wealthy septuagenarian need not limit her stock exposure to 30% if those stocks are generating plenty of safe dividend income, Mallouk argues. On the other hand, a 45-year-old who can't stomach stock market volatility may be better off with mostly bonds, he adds.

THESE DAYS, MALLOUK uses equities—both stocks and alternative-class cousins like master limited partnerships—for 60% to 70% of client portfolios. Few asset classes are cheap at present, but Mallouk is high on emerging-market stocks, where price-to-earnings ratios are low and dividend yields are strong. Because of the sector's political turmoil, currency risk, and other hazards, it's best for investors who won't need their money back for at least 10 years, he adds.

Looking back, Mallouk is glad that he created his business in a turbulent decade that included the Bernie Madoff scandal and the 2008 market crash. Events like those made families take investing more seriously, and that ultimately led many of them to Leawood. "More people found us than would have found us in any other decade," Mallouk says