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Following Road Less Traveled Leads To Big Profits BRKA

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Financial adviser Peter Sargent: "Understand valuation."
Company View Enlarged Image

As a young adviser earning his Chartered Financial Analyst designation, Peter Sargent read a book that changed his professional life. In "Damodaran on Valuation" by Aswath Damodaran, Sargent found a better way to evaluate investments for his clients.

"It opened my eyes to the fact that, over the long term, markets are efficient," said Sargent, an executive vice president at Janney Montgomery Scott in Newtown, Pa. "But short term, the markets are very inefficient. So you have to control your emotion and understand valuation."

Damodaran, a longtime professor of finance at New York University's Stern School of Business, presents a range of valuation models for analysts to use in valuing assets. Sargent started using Damodaran's models to compare investments.

When Sargent discovered Damodaran's book in 1999, he applied its principles right away. He identified overvalued stocks to avoid — and undervalued stocks for potential investment.

The knowledge paid off for Sargent. A financial adviser at Merrill Lynch at the time, he wound up designing a curriculum to train other advisers and became one of the firm's top producers. He moved to Janney Montgomery Scott in early 2012.

Sargent, 45, has more than $250 million in assets under management. He credits his success in part to his willingness to part ways with clients who do not accept his advice.

Putting Clients' Needs First

Before the tech bubble burst in 2000, for example, some clients pressured Sargent to load up on hot Internet stocks. He refused — and was later proven right.

"I didn't buy into the craziness," he said. "One client kept telling me, 'Buy me tech stocks.' I told him, 'If that's what you want, find another adviser.' I'd rather lose half my clients than half their money."

Instead, Sargent opted to buy stocks that he deemed undervalued at the time, such as Berkshire Hathaway (BRKA) . Even though his client objected, Sargent stuck to his strategy. The client finally agreed, and he has remained with Sargent to this day and still holds those same shares.

In 2002, one of Sargent's clients — a corporate CEO — paid a steep fee to a tax expert to evaluate a complex tax strategy. The expert endorsed the controversial strategy, but Sargent rejected it outright.

"I told my client, 'I'll walk away,'" Sargent recalled. "He decided not to institute that tax strategy, which was later deemed to be illegal. He's still a client today."

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The Road Less Traveled

Sargent prefers not to give ultimatums to clients. Ideally, he tries to get them to conclude for themselves that they should heed his counsel.

"It becomes a series of questions," he explained. "You draw them out and it forces them to talk it through and think it through."

Yet if they cling to their misguided convictions, he will make his case by "pulling out the bazooka." With the CEO who was tempted to follow a shady tax strategy, for instance, Sargent ultimately said to him: "No, I don't believe it. I don't think it's right."

For Sargent, following the road less traveled is a central tenet of his wealth management philosophy. He predicts that over the next decade "an enormous amount of commoditization in the industry" will enable superior financial advisers to separate from the herd.

"People are seeking the genuine truth," he said. "No sugar-coating. Exceptional advisers need to transcend the jargon, be blunt and say what they think the client should do."