

*John Smartt stays balanced by being a part-time planner and a part-time home builder for Habitat for Humanity*



**O**N A TYPICAL WEEKDAY AFTERNOON when most planners are ensconced in their swivel chairs and swimming in spreadsheets, you'll find advisor John Smartt somewhere else: Out in the sunshine, teetering atop a ladder in a pair of sawdust-covered jeans, expertly hammering the last sheet of plywood onto the roof of a Habitat for Humanity home.

You can find him out there every Tuesday and Thursday, and most Saturdays, too. Yet he still finds time to manage investments for more than 36 clients—not too shabby for a guy who's only in the office three days a week.

Smartt is serious about his volunteer work, having wielded a hammer for Knoxville, Tennessee, Habitat for Humanity for more than a decade, directed entire home builds, globe-trotted to build homes for families across the country, and even been featured in a book—*More than Houses*, by Habitat founder Millard Fuller—about volunteering for Habitat. He says his efforts are about as tangibly satisfying as any volunteer work could be: What could be better than helping a family in need put a sturdy roof over their heads?

But he's also serious about his financial advisory firm, which can make finding a balance between his interests the hardest part of all. An 18-year veteran of the audit staff at Price Waterhouse, Smartt, 60, founded his own firm in 1993, built his own accounting/reporting software package using Lotus 1 2 3, writes a quarterly newsletter, acts as a financial guest speaker at a variety of gatherings, participates in his region's NAPFA study group, and manages more than \$10 million in client assets. He can even claim 50 years of investment experience, he says with a laugh: He

# STRUCTURAL INTEGRITY

BY KAREN HANSEN WEESE

received his first stake in a mutual fund at the age of 10 for pet-sitting his aunt's dog for the summer.

How does he do it all? Technology certainly helps. His Lotus-based program allows him to run reports efficiently, he reports, and he can communicate by e-mail with more than 80% of his clients. If clients call during "Habitat time" (Tuesday or Thursday until 3 p.m.), they simply leave a voicemail and Smartt calls them back that night or the next day.

But the real secret to his success is his firm's structure. There are no employees to manage ("I am my own secretary," he says), and no active stock trading—in fact, there's no stock trading at all, since Smartt prefers mutual funds. And he doesn't presume to offer comprehensive financial planning or full-service tax planning; as a part-time advisor, he says it simply isn't reasonable to bill himself as an expert in estate planning, taxation, or insurance. Instead, he offers low-cost investment management combined with advice on issues that are specifically of interest to the client. "I don't require the full 30-page tome," he says, referring to the

lengthy financial plan prepared by many advisors. "I work with them on what they wish to work on, and I stand ready to help them answer most any financial question they have." One client, for instance, wanted to know how much he would need to save each year in order to retire in 14 years with \$100,000 in annual income. Another client, a minister whom Smartt met at a Habitat work site, wanted to know when his current investments would allow him to retire. (When Smartt told him, "Today!" the minister turned in his resignation the following week.) Other clients ask Smartt to help them plan their children's college funding, and he regularly encourages clients to have him assist in choosing their 401(k) investments. "I began my practice to be in the education business," he says. "The continuing investment management was almost an afterthought."

### The Smartt Approach

That afterthought would make John Bogle proud. Smartt combines a half-dozen Vanguard funds to build frugally minded, long-term-oriented client portfolios, and the portfolios can cost less than one-quarter of a typical advisor-managed portfolio. How can that be? "Last month's *Morningstar Fund Investor* said that the average large-cap blend fund cost 1.29% per year [in fund expenses], and that the average fund had turnover of 88%," says Smartt. "The Plexus Group, in its study, *The Iceberg of Transaction Costs*, calculated that for large-cap stocks, 100% turnover costs 100 basis points, so 88% turnover would cost 88 points. If you're paying an advisor another 1% to manage your money, you're at 3% per year in management costs!" In contrast, one of Smartt's favorite funds, the Vanguard Total Stock Market Index fund (VTSMX), has fund expenses of only 0.02% per year, and 2% turnover—a total of four basis points in fund expenses. Add those to Smartt's 0.5% management fee, and you get a grand total of 54 basis points—less than one-fifth of the cost of an average advisor-managed portfolio.

Smartt favors Vanguard funds for their low costs, and won't even consider individual equities for client portfolios unless the client walks in the door already owning them. The only reason to own stocks, he says, is for their "psychic rewards." "Imagine you own 100 shares of General Motors. Tomorrow you go out and pick up the newspaper off the driveway, open it up, and read, 'GM went up a dollar a share.' You pat yourself on the back and say, 'This is going to be a great day.' The next day you pick up the paper and it says, 'GM went down a dollar a share.' 'Well,' you say, 'I better buckle down and work even harder today,' and you have a great day," he says. But beyond that emotional connection with the markets, "there's not a reason in the world to own individual stocks when you can become fully diversified for 20, or even 2, basis points," he says.

Of course, all this thriftiness raises an obvious question: How can Smartt make a living on a 0.5% management fee, especially when his account minimum is \$100,000, and he doesn't even always stick to that minimum? For starters, the income he does make shouldn't be sneezed at: "In the last year, my practice has

## JOHN SMARTT

John M. Smartt, Jr., CPA  
2001 Partridge Run Lane  
Knoxville, Tennessee 37919  
Phone and fax: 865-588-4159  
johnsmarttcpa@yahoo.com

**Year practice began:** 1993

**Number of advisors in office:** 1

**Number of clients:** 47 (36 investment management clients, 11 hourly clients)

**Compensation method(s):** Fee-only, based on project and/or percentage of assets under management

**Fee for managing assets:** 0.50% (\$100,000 minimum)

**Hourly rate:** \$150

**Client demographics:** Professionals, retirees, and "good savers" from North Carolina to California

**Education:** BS in economics from the Wharton School of the University of Pennsylvania; MBA in accounting from the University of Michigan

**Previous incarnations:** 18 years on the audit staff of Price Waterhouse, law firm administrator, member of the campaign staff of Senator Albert Gore, Sr.

**Professional designations:** CPA

**Outside interests:** Habitat for Humanity volunteer construction supervision, church choir, foreign travel (especially in the United Kingdom)

cost me an effort equal to about 11 hours a week," he says. "At that rate of effort, I'm grossing more than I grossed in the first year or two as a Price Waterhouse partner—and that's a very nice living." He also pinches pennies: His office is in his home rather than in an office suite, and he is his own secretary. Still, a good hourly rate can only go so far on 11 hours a week, so he is currently tapping one of his profit-sharing plans from Price Waterhouse, and he expects his retirement to be well funded by the fruits of his savings throughout his Price Waterhouse career.

The typical client walking through Smartt's office door is approximately his age (60), which raises another puzzler: If his clients are hiring him to manage their assets through their golden years, should they really be hiring someone who might be eyeing retirement, too? Shouldn't they be looking for someone younger? No, says Smartt, because he doesn't have plans to hit the golf links or the shuffleboard court anytime soon. "My dad is still living, and he worked until he was 78. I hope to work at least that long," he says. "I truly enjoy what I do." Still, in a nod to practicality, Smartt's wife has a life insurance policy on him, and she has agreed to spend part of the proceeds on shaping up the business for sale in the event of his untimely demise.

### Building the Foundation

Smartt has always had an interest in things financial. In 1970, after spending a year on the campaign staff of Tennessee senator

Albert Gore, Sr., Smartt joined the audit staff of Price Waterhouse, and spent nearly the next two decades with the firm, eventually becoming a partner in 1980. He spent his first few years in its D.C. office, then moved to the Nashville location for many years, and finally went to San Antonio for his last three years with the firm. "I got to see the insides of a variety of companies—everything from IBM during the time the Johnson administration was suing them for antitrust violations, to a free audit of the Crime Stoppers network, to several United Methodist organizations, most of which are headquartered in Nashville," he says. As he prepared to leave Price Waterhouse in 1989, he began investigating how he should invest his partnership capital, and, in doing so, ran across Vanguard's 500 Index fund, which piqued his interest in the firm's low-cost investing style.

After leaving Price Waterhouse, Smartt and his wife agreed that he could take three months to "decompress." He spent the summer building Habitat houses and dabbling in investment management, and also tried his hand at teaching accounting at St.

Mary's University in San Antonio. He then moved back to Knoxville where he became the manager of a "very talented, very contentious" business law firm. "I found a consultant, installed a Novell network, taught everybody WordPerfect... and then all of the secretaries left because now they had a marketable skill that they could take to a firm that was less stressful!" After a year and a half, he says with a laugh, "I made two New Year's resolutions: Never again to work for lawyers, and never again to work full-time. And I've been able to keep both of those resolutions."

Smartt turned his attention back to investment management, and reconnected with another St. Mary's professor who was also a CPA. "She had a number of doctors as clients, and she wasn't comfortable telling them what they should invest their Keogh plans in," he says. "I was very comfortable doing that, so she sent them to me." Smartt began getting involved with the local Habitat affiliate, helping the staff set up their accounting and computer systems, and assisting with the construction of several homes. Thus was born his new lifestyle combining an advisory practice

and volunteering, which he continues to this day.

Smartt's early years as an advisor were boosted not only by his contact with the professor/CPA and her doctor clients, but also by his marketing efforts. He acted as a guest expert for a Knoxville news program for three minutes, once a week, for several months, providing advice on family finance until a program format change forced his ouster. Today, he enjoys public speaking on financial topics. He leads a monthly financial forum at the local senior citizens' center, and provides continuing education seminars for CPA chapters in the area. He also speaks frequently to service clubs, such as Rotary and Kiwanis. "I have a speech I use a lot for them called 'Cats and Investors Have Nine Lives,'" he says. "It's about the eight or nine things I tried in investing over the years, starting with my aunt's dog and that first mutual fund, and ending with finding indexed, low-cost, low-turnover Vanguard mutual funds."

Smartt is also working on developing contacts in the CPA community. He sends his quarterly newsletter to more CPAs than clients, and he's willing to offer them unusual perks: An "iron-clad" non-compete agreement, and a 25-basis-point continuing commission for CPAs who refer their clients to him. Why the commission? "The AICPA has said that there is a significant interest in doing personal financial planning among CPAs who have been in business for more than 10 years," says Smartt. "The CPA may decide at some later date that he wants to do personal financial planning, and if he does, he needs to know that I'm going to step aside, and the client is his." Thus far, the response has been mixed. "It may be that CPAs are making more than a quarter of a percent using other vendors," he says.

While having two part-time jobs might make some folks feel they're doing too many things and nothing well, the balancing act seems to suit John Smartt just fine. Every other day, he can alternate between exercising his mind or exercising his body; using his mathematical skills or his mechanical skills; and helping people build their nest eggs or helping them build their nest. With a lifestyle like that, who needs to retire? **IA**

---

Assistant Managing Editor Karen Hansen Weese can be reached at [khansen@iamag.com](mailto:khansen@iamag.com).