

The House That Pat And Dave Built

Two advisors create a large, fast-growing RIA by winning investment management business from institutions, government agencies—and 350 other advisors.

► By Karen DeMasters

Symmetry Partners LLC in Glastonbury, Conn., emerged as one of the largest and fastest-growing independent advisories in the country in 2005, having more than doubled in size that year to \$1.53 billion in assets under management. Now, two years later, the firm is just shy of the \$5 billion mark. How big can Symmetry get? The founding partners, Patrick A. Sweeny and David E. Connelly, say stop back next week and ask them again, because the answer may change.

The things that will not change are the philosophy of 100% passive investment on which the firm was created and the firm's ownership: Its two founders solely own Symmetry, and they plan to keep it that way.

Sweeny and Connelly have been together so long they finish each other's sentences, driving the conversation forward with unbridled enthusiasm for the successful business model they have created. Symmetry is one of a small group of a dozen or so turnkey asset management firms devoted entirely to guiding other advisors, and helping these professionals help their clients. The firm no longer takes on new individual clients to advise directly (it has only a few long-time holdovers and family members in the mix). Otherwise, the only direct clients it now accepts are private and public pension plans and endowments. But the vast majority of the firm's business is now devoted to other advisors who adhere to the unusual, if not unique, Symmetry investment approach.

"What we are selling is a philosophy, not a product. We are betting on capitalism as an economic model. We are not trying to predict the market, because no one can do that. We are saying, 'We do not know what the market will do,'" says Connelly. "This is a passive strategy. We take a client's safe money and invest it for the long term."

Symmetry uses Dimensional Fund Advisors, based in Santa Monica, Calif., exclusively for the portfolios it manages. DFA's and Symmetry's investment philosophy is based on the research



David Connelly and
Patrick Sweeny

of academics, rather than the hottest market trend, which can put them at odds with the rest of the investment world at times. Investments through DFA are diversified worldwide, with some 10,000 stocks in 40 countries.

DFA's philosophy of investing is based on the theories of Eugene Fama, a University of Chicago finance professor who maintains that securities prices reflect the collective wisdom of participants in a market. He has long maintained active investors rarely beat the market over the long term. DFA buys entire asset classes, such as small-cap and value stocks. Access to DFA investments is restricted to only approved independent financial advisors or turnkey firms such as Symmetry. The Symmetry strategy is based on a combination of two academic approaches: modern portfolio theory, which considers the relationship between risk and return in the construction of optimal portfolios, and the efficient markets hypothesis, which maintains that a buy-and-hold approach to investment is the wisest. In these scenarios, the focus is on how much the investor can risk and how long he is willing to keep money in the market.

Sweeny and Connelly now have more than 350 advisors

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using their services. The advisors who are part of Symmetry lead the firm, with its 60 or so employees, handle the money management, which in turn frees them to prospect for new clients, maintain relationships with existing clients and provide other services. The firm has done well for investors in recent years. For the firm's most popular portfolio—the 60% equity, 40% bond—the annualized model return for the five years ended September 30, 2007, was 14.47%. That portfolio has about two-thirds the volatility of the market as defined by S&P.

"This is not a business model that we have just developed," Sweeny says. "We have lived this. We have done it and it works. Investors do not have the time or the knowledge to do this, which is why the financial advisor is so important to them."

Connelly adds, "The great thing about passive funds is we know exactly where we are putting a client's money. We keep them in their seat by not letting their money get up and move around a lot."

Symmetry was founded in 1994 when the partners tired of Wall Street and of the conflict they felt in pushing particular products. There were some lean years at first, and

both admit they had to endure some doubts from others about their investment strategies. "People would tell us in the '90s, 'I just bought such-and-such dot.com and doubled my money in a month.' We would tell them they were doing great, but they were exposing themselves to a lot of risk," Connelly remembers. "We had 50 years of research that went against what they were doing and went against basing investments on the typical Wall Street gut feeling."

Somewhat more flippantly, Sweeny adds, "We told them we had seen this movie before and we know how it ends—everyone dies, which made us the polar opposite of where everyone else was at that time. In the worst market years, we did not lose any of our client's money—we did not make much, but we did not lose any."

"And we did not lose any clients," Connelly says, finishing the thought. "The things that got us to where we are were thinking passive, globally diversified and long term. There was the dot.com meltdown and then 9/11. It could not have gotten much worse, but we had talked about the bad day before it happened and we were prepared."

Sweeny, a 46-year-old native of Long Island, and Connelly, 42, and a Connecticut native, first met when they shared a cubicle wall at Dean Witter Reynolds in Greenwich. Sweeny, who is the third generation in his family to work in the financial world, started in the business several years before that as a runner at PaineWebber, graduating to the position of trader buying and selling futures contracts for precious metals. He has been a member of the Commodities Exchange Inc. as a floor broker and has handled corporate and government bonds as an institutional salesperson. He became a bond salesman for Dean Witter Reynolds, left that firm for a time and then rejoined it on the retail side in the Greenwich office.

Connelly started his financial career through internships in college at Northeastern University in Boston. He worked in manufacturing for a time before entering an MBA program at the University of New Haven and held jobs with Merrill Lynch and Putnam Mutual Funds before taking a job at Dean Witter Reynolds that landed him next to his future partner. Both men objected to pushing proprietary products rather than doing what they felt was best for their clients, so they decided to strike out on their own and created Symmetry. They soon partnered with Dimensional and began attracting other advisors.

Dr. John McDermott, an associate professor of finance at Fairfield University in Connecticut and a consultant to Symmetry, explains, "Advisors need to understand our investment story because it flies in the face of conventional wisdom and it takes intellectual work. Most advisors say they are picking stocks that outperform the market. We are not doing that because it is very difficult to beat the market."

"We offer small- and value-stock exposure from across the globe. These are risks that historically have been rewarded with additional return," says McDermott, who is also on the investment committee and the research staff at Symmetry. "When an investment opportunity arises that we think may be of value to



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the portfolios, we analyze it to see if it should be added to the offering and make a decision based on research and analysis. It is a collaborative process that is based on the premise that academic research will inform decision making.”

McDermott earned an MBA in finance from Columbia University in New York and a doctoral degree in finance from the University of Connecticut in Storrs, Conn. For his side of the collaboration, “As an academic, it lets me put a foot in the world of practitioners and lets me put theory to work.” The professor conducts several in-person seminars and Web-based seminars every year for advisors.

David W. Sullivan, principal of Sullivan Financial LLC in South Glastonbury, Conn., says finding Symmetry in his own backyard was like finding a gold mine. “I was searching for a way to use Dimensional Funds, but with a lower cost structure than I was then operating under and with more support. I found Symmetry was right here, and it seemed like they were on to something good,” says Sullivan, who created his own firm four years ago to do asset management, retirement and education savings, and insurance services. “I am the front office and the local advisor for my clients. Symmetry is the back office. They do the transfers and the paperwork, which frees me to do the

overall, macro financial planning for my clients.

“I have a great relationship with Pat and Dave, who are visionaries. The wave of the future is passive management with low costs,” he continues. Sullivan has 100% of his clients with Symmetry, as well as his own personal investments.

The entrepreneurial drive that inspired Sweeny and Connelly when they started the firm continues to exist within the organization today, according to Liz Howe, vice president of sales for Symmetry. “I am ultimately responsible for our sales goals and I have a lot of autonomy to achieve those goals,” she says. “Our ultimate mission is to help advisors develop a stronger relationship with their clients and build a more valuable business model through our philosophy and a better investment experience.”

That consistent investment experience, according to the Symmetry philosophy, has to be based on unbiased academic research, says Robin Sweeny, Pat’s sister who has 30 years of Wall Street experience under her belt. Robin Sweeny, senior vice president of business development, came into Symmetry a little more than a year ago after a brief retirement from UBS, supposedly to lend a hand part time, three days a week. That has since grown to a full-time commitment to the firm.

“The beauty of our operation at Symmetry is that we

do not have a different story for every advisor,' she says. "We only have one story and it is the same for the ultra-wealthy or for someone just starting out, and it is as different from Wall Street as it can possibly be. It starts with us saying what we do not know. We do not know what the market will do. On Wall Street they always say they have the answer for you."

The answers they do know are based on the academic research underpinning the DFA funds, which says that stocks have a higher expected return than fixed income, small-company stocks have higher expected returns than large-company stocks and lower-priced value stocks have a higher expected return than higher-priced growth stocks.

The partners send DFA more than \$100 million in new business every month. The partners make decisions jointly, each having veto power, because they say one person can make a mistake, but two are less likely to do that. Symmetry buys mutual funds from DFA and allocates them to individual portfolios based on each client's risk tolerance, typically creating portfolios of three to 15 DFA mutual funds. The money is the client's conservative or safe money and it is left in place for the long haul. The firm is generally paid 35 to 50 basis points annually, with the range varying depending on the value of the account and the services needed.

Symmetry took a big leap in gaining new business while still relatively small several years ago when it successfully lobbied to handle the Town of East Hartford's pension fund investment of \$130 million. The partners won the contract after beating out much larger competitors such as Merrill Lynch and Wachovia. They now handle funds for other institutions, government agencies and not-for-profits, which has helped fuel their growth from a level of about \$200 million under management five years ago to the multi-billions they manage today.

The partners spend much of their time talking to advisors who are part of the network or looking for new recruits who share their philosophy, either formally through their 10 semi-

nars each year or informally in the course of their daily contacts with advisors. Many advisors bring only part of their business to Symmetry at first, but then often shift more and more of their clients to the firm as they become more confident about the investment strategy. Many independents now have their entire client base with Symmetry.

Recently, Symmetry has begun to develop computer software to support their investing practices, and the firm has its own Internet department. They are building an external field force to meet with advisors. They are separated from other similar firms in that they receive no money from DFA and they do not pay broker-dealers to become part of Symmetry. At the same time, they will take on advisors of almost any size, even smaller ones, because they feel they can help such firms develop as long as the recruits share the firm's investment philosophy. "We have succeeded, and we sort of took that for granted, but we realize we are unique among firms that do what we do," says Connelly. "With our ownership and management structure, we are able to maintain the purity of our business philosophy."

From a personal point of view, the two men, both married with children, are having more fun than most people as they continue to steer their ever-expanding enterprise. Connelly and Sweeny share favorite pastimes as well as a love of finances, and they take off for a New York Jets or Yankees game together whenever possible, ride motorcycles or go to a car museum. But their true passion is with Symmetry.

"You ask what we like to do—we are standing in it," says Sweeny from the large, airy office the two share with their employees. "This is the reason we left Wall Street and why my sister, who was burned out, joined us."

Connelly agrees wholeheartedly and can barely let his partner finish his sentence before jumping in. "We were both young and we took a risk," he says. "It was hard building the business at first, but now it is just a joy to come to work, and it is rewarding to be able to help other advisors." ©

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