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Debra Brede: Stock Opportunities Abound

By Karen Hube

WHEN DEBRA BREDE LEFT a major brokerage house to start her own Needham, Mass., advisory firm in 1989, there was no reliable playbook for going independent. "I took over some space in my husband's dental office that he wasn't using, rented furniture and figured I'd give it one year," she says. "If it didn't work, I'd go work at a wirehouse again." She never looked back.

Armed with a true grit forged by a tough upbringing in Pennsylvania coal country, Brede has grown her assets under management to just over $1 billion and is Barron's 38th-ranked female advisor. Sitting down with Barron's Advisor, Brede argues for a bullish stance on stocks, ticks off several bargains, and explains how she takes inspiration from King Solomon.

Q: Unlike a lot of successful advisors, you came from a pretty humble background, correct?

A: My story is a rags to riches story. I grew up in a poor family. We couldn't afford to go to the Ritz Carlton.

Q: Yet you were a good student, and earned a pre-med degree from Penn State. What led you to pursue a career as an advisor?

A: I had a year to kill after graduation [before applying] to medical schools. So I went to work at Shearson as a sales assistant. When the operations manager died in an accident, I was asked to take that job. I said, "Sure, but it won't be for long." But I fell in love with the business. I did the brokerage training program at Shearson.

Q: What prompted you to go independent?

A: I moved from Shearson to Prudential when Shearson merged with EF Hutton, but I saw that it was the same play, just different actors. I didn't like the atmosphere, the pressure on you to sell products. I didn't sell them anyway, and I didn't listen to their analysts. I was doing my own stuff. A good friend who went independent said to me, "Why?"

Q: Can you give me a snapshot of how your firm operates?

A: I work with a lot of retirees, corporate executives, business owners, physicians. My minimum account size is $1 million of investable assets and the wealth range is usually [between] $1 million and $30 million.

Think of me as the top doctor, and the main responsibility of my staff of 10 is to make sure my clients are serviced. Investments are the main thing I'm responsible for. I have two CFPs on staff. I look to minimize income taxes and estate taxes by working with my clients' accountants and attorneys. I don't give tax or law advice, but make sure they have all of that in place.

Q: What's your outlook for the economy and the markets?

A: People are talking about a recession. One of the characteristics of a recession

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has been high valuations. Look at current valuations—the forward P/E ratio on the S&P 500 is 16.8, around average historically. Profits look good. We've got the Fed talking about lowering rates. Unemployment is low. Recently, with the Iran situation, oil spiked but it came back down. I think the economy looks okay.

The inverted yield curve doesn't bother me. I think we're just in a different time. I see negative rates around the world. A lot of the pressure on our bonds has to do with the rest of the world coming into the U.S. market to get some yield.

As for the trade issue, we've signed agreements with Canada, Mexico and Japan. I look at China and that situation is worrisome, but Home Depot and other companies that buy from China are going to say, "Where else can I buy from?" That's all going to work out.

Q: What would you say is the biggest risk to the U.S. economy?

A: I'm more and more concerned with the political climate, particularly with some of the presidential candidates talking about a social agenda, which in my mind means an increase in taxes. My concerns aren't just a tax increase on the wealthy but across the middle class. I believe the last tax cut helped the economy.

One of the biggest bull markets in history happened in the 1980s, which I attribute to the two major tax cuts during the Reagan presidency.

Q: What's your investment approach?

A: For each client, I give a custom-tailored portfolio. Some clients want all individual stocks and bonds, and others want a combination, including mutual funds and ETFs. When using individual stocks, I use large-cap companies with strong balance sheets, preferably multinationals that increase their dividends each year. I look to own companies that show increases each year in revenue and sales, cash flow, earnings and book value.

I use separate account managers, mutual funds or ETFs. I prefer active managers to passive. I want an intelligent brain deciding if a position should be underweighted, overweighted or in the portfolio at all. I buy value and growth holdings, because I want to always have a place of strength to take distributions from.

For instance, in 2000 and 2001, value investments showed positive returns, whereas growth were down due to the tech bubble crash, as were blend—the S&P 500. By separating out value and growth, it allowed me to take client distributions from my value holdings.

Q: How does your outlook inform your current asset allocation?

A: In the equity portfolio, I'm pretty much close to equally weighted in value and growth in large-caps and mid-caps.

I'm underweighted in foreign because I think there will be a global slowing. Normally I have 30% in foreign, but now I have 25%. In the U.S., I'm overweight. I'm not worried about the here and now. There are opportunities in this market. You want to buy on the dips.

Q: What are you buying?

A: I like to buy stocks when they're down about 10%. Small-caps are down almost 11% from their 52-week high, so it's a good time to buy. The Dow Jones Internet Index is down about 11%, and biotech is off about 18%. The robotics index, where you get a basket of robotics and automation companies, is off 10%. I see robots and automation helping to increase the productivity of workers.

Other opportunities? United Healthcare (UNH). It's down about 25% off of its 52-week high. I believe that's due to the Democratic presidential candidates' talk of universal healthcare. That's a bellwether stock in this sector. And look at Disney (DIS), down 10% from its high, CBS (CBS) down 30% from its high, and Viacom (VIAB) [down about 30%-ed.]– they're loaded with large libraries of content. I believe it's time to add to these positions. And Amazon (AMZN). It's down 14% from its high because it reported mixed second-quarter results, beating sales forecasts but missing on earnings.

Q: What are examples of companies you're waiting to buy on dips?

A: I like leaders in their industries when they're trading close to 10% down. None of the following stocks are at this level, but they're on my watch list: American Tower (AMT), a REIT, is the largest independent operator of wireless telecom towers; Visa (V), the world's largest electric payment company; TJX Companies, a leading off-price retailer; JP Morgan Chase (JPM)—Jamie Dimon is a genius in my book; Sherwin-Williams (SHW), because people need or want to paint their homes; McCormick (MKC), because the world loves to use spices; Microsoft (MSFT), a beautiful, profitable, innovative company; and Alphabet (GOOG). The fact that people use the word, "Googling," instead of "searching," says it all.

Also, Zoetis (ZTS) because two times more U.S. households have a dog or cat versus a child under age 25. And Estee Lauder (EL), because makeup is a big business, and [there are] more consumers with middle-class growth in India and China.

Q: How do you build portfolio ballast?

A: I always keep enough in bonds to get through at least four to five years of annual distribution needs. I'm not a fan of alternatives, but I do buy Nuveen's market neutral fund (Nuveen Equity Market Neutral Fund, NIMEX), and also real estate—I buy Cohen & Steers Real Estate Securities Fund (CSEIX).

Q: What investments do you steer clear of, if any?

A: I don't buy crypto currency. Hedge funds—I've seen very poor performance. And private equity. I feel a lot of the good private equity is gone, taken by the institutions.

Q: What's your biggest business challenge right now and how are you approaching it?

A: The increased stock market volatility. This makes clients nervous and means more calls and longer discussions centered around the economy. I've trained several key members of my staff to help with these calls and remind clients of their original financial goals. I have also hired two more administrative staff to free up key senior staff to be more available to take client calls.

Q: How has your business been impacted by the rise of low-cost investment services, such as robo advisors?

A: Robo is really good for a person who doesn't have a lot of money. You're not going to have the same kind of service as with an independent advisor. I'm like a concierge doctor, but I'm not charging concierge prices. I buy institutional funds so clients get the better pricing. Just like if you go to the Ritz, I have more people on staff to help clients compared to the Holiday Inn.

Q: What's one career decision that you'd like a do-over on?

A: I did not ask a very difficult client to leave my firm sooner. It wasn't until I received a call from an upset staff member while I was working at an orphanage in India that I realized that this particular client was toxic to my organization.

Q: Do you have a succession plan for your business?

A: I have given serious thought to this matter but have nothing concrete as of yet.

I have always had in place a seasoned, trained staff to be able to handle my clients in case I am hit by a bus. I love what I do and plan on working many more years as an investment advisor.

Q: Who has inspired you the most in the investment world?
A: Bob Doll, a senior portfolio manager and chief equity strategist at Nuveen, and prior chief equity strategist at BlackRock. Bob has been a voice of reason during many market cycles and has shown true wisdom in his predictions. Bob also has a huge heart for those less fortunate, which is expressed in his generous charitable giving. We need more like him on Wall Street.

Q: How involved are you in your clients' lives?
A: I know what kid they love and what kid they're not as crazy about. I know who they trust. If they're spending too much, I say, "You're spending too much." Other people don't spend enough, so I say, "Take your kids on your dream vacation." Then if you show it all on a financial plan it makes sense. I'm like their mother, I want to make sure they're okay and if they're not okay, I'm honest.

Q: You originally wanted to be a doctor. Whatever you thought you'd like in medicine, do you find it in finance?
A: Absolutely. I felt being a doctor would always be interesting because you're working in a changing environment and you get that personal touch of getting to know the patient. It's the same in finance—always changing, and I get to know clients. I just don't have the blood and gore to look at.

Q: You work in a demanding industry. How do you manage the stress?
A: I start my day by praying and mediating on scripture. I especially love the Book of Proverbs, written by King Solomon, who was the wealthiest man to have ever lived. As in Proverbs chapters two through four, I ask God daily to give me wisdom, knowledge, understanding, insight and discernment – all of which I need to be able to do the best for my clients.

Q: As a trustee to Agape AIDS Orphan Care, you volunteer regularly at an orphanage in Hyderabad, India. Does this experience in any way influence how you approach your business?
A: Prior to coming to the orphanage, many of the kids came out of slums or have been taken off the streets as beggars. I've seen these kids blossom and grow after receiving nourishment, love, respect, and education.

I once saw a boy writing on paper on the outside cement floor. He was copying another boy's homework. I called him out on it. I then took the old Harvard Business School cap off my head, and put it on his and said, "If you study real hard, someday you could go to Harvard." He asked, "What is Harvard?" I told him that it was a good school.

The next year, the headmaster told me he was at the top of the class, coming from next to the bottom. This taught me the importance of speaking into someone's life. Sometimes it is just a few sentences, but these words can change the direction of a life.

Q: Thank you, Debra.

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