Alpha Vee Reveals the Secret Sauce

Leigh Eichel's portfolios often rank near the top of the industry performance rankings. Here's how he does it.

Founded in 2010, Alpha Vee Solutions has made a name for itself in the financial industry by offering innovative solutions to advisors and investors across a wide range of market environments.

With a focus on risk and risk management, the proprietary models are really the heart of the platform. Cofounder and CEO Leigh Eichel was gracious enough to give us a peek under the hood.

Wealth Advisor: "Proprietary" investment solutions usually suggest that the magic sauce is a closely held secret. How is Alpha Vee different?
Eichel: Transparency. We publish our methodology. We take any of our models and convert them into indices. There's never a question of style drift or how we operate. Do we give away the sauce? No. But it's close enough for the advisor to understand exactly what we're managing in our portfolios.

And what are your objectives?
At the end of the day, we are very, very proud of performance, because at the end of the day, we want to help our advisor partners grow their book of business and their revenue. But at the end of the day, lower standard deviations keep the business . . . and keep the phone from ringing when people are trying to manage risk.

Where do you think investors are in that continuum right now?
It makes my skin crawl to talk about "risk on" or "risk off"—because risk is

"It makes my skin crawl to talk about 'risk on' or 'risk off'—because risk is not a light switch."

—Leigh Eichel

not a light switch. If you want to use that analogy, it's closer to a dimmer switch. Risk is always on. It's always variable, and there are all kinds of risk components.

How can advisors wean clients off that binary light switch mentality?
Start with a customer-facing slide to walk them through the bigger picture. If you keep a three- to five-year time horizon, you will be rewarded. Keep updating the list of threats. When Russia starts a war, update the slide. When the Fed gets aggressive, update the slide. It demonstrates that you're paying attention to the headlines. But the big picture remains rewarding.

When advisors come to you, what do they want?
Risk management. They probably have a large number of clients, and they probably are going through a process where their existing models from the existing big names just aren't cutting it. They're paying a lot and not getting a lot.

And what does the advisor who partners with Alpha Vee look like?
Let's start with who they aren't: advisors who are short-term focused, chasing the performance or trying to time the market. We're not the right players for that. We're the old-school institutional, boring, "let's look at the fundamentals, let's look at the balance sheet, let's look at the sector and then decide who's likely to outperform" type. That narrative resonates with advisors who like working with us. And then, if they want to outsource that kind of work and have the temperament and discipline to educate their customers about the three- to five-year time horizon, they're going to call us and take a look.

I bet the motivation is often a confession: This side of my portfolio failed in the last three years. I'm getting too old for this, and I can't do this on my own anymore.
You hit the nail on the head. The game has changed in these last five or 10 years. Where you could get away with some simple screens, some simple off-the-shelf products, your competition has changed. More and more advisors have gotten more sophisticated. There has been a technology shift.

What are the other pain points?
Customization. I get calls from advisors who say, "Listen, I'm working on this portfolio. I'm building a proposal for a client, and I need something custom. I need something changed." Say they like our Mega Cap portfolio but want 50 names and no technology stocks. Say they like our Top 5 Sector methodology but want to keep technology always in the mix. You want it only rebalanced twice a year to make it easy? The answer is always "yeah, that's what we do." We're happy to do it.

If I want to run my own small-cap ideas as a piece of a "powered by Alpha Vee" portfolio?
Happy. It's a one-page agreement. You can even white-label it to your clients or build it on your favorite platform if we're not on it.

And in the meantime, you have that stronger core, risk-managed equity for a world where 60–40 investing failed.

We just did a video to explain our perspective on that. Just go to the Alpha Vee channel on YouTube to see it. Our main struggle with the 60–40 portfolio is that the allocation is fixed. Rigid. You don't even buy and hold. You buy and hope that it's going to recover from a catastrophic event. I'm being a little harsh. It did work for a long time, but our approach is that the allocation is variable. Sometimes we go 60–40. Sometimes we're 80–20. Sometimes we're fully in Treasury or all equity. We want to protect your clients from more of the drawdowns and save them a lot of time and money along the way.

How do we start building that improved core?
It's a mouthful, but the Alpha Vee Risk

CONTINUED ON PAGE 20

HOW TO DEPLOY IT

Leigh Eichel admits that his naming conventions can be a little on the opaque side, but there are a lot of great advisor tips and tools hidden in the nomenclature once you crack the code. Here's his top idea for Wealth Advisor readers looking for a way to fit Alpha Vee's solutions into their practice and start adding value right away.

Start with a smarter core for all clients in the accumulation phase, regardless of age. That's probably going to be the Alpha Vee U.S. Mega Cap strategy (AVUSMEGA), which provides curated exposure to the stocks at the top of the market food chain . . . effectively a dynamic and streamlined S&P 500 that as we write this has captured a healthy 12.32% compound annual return across its lifetime.

A smarter SPY is nice. But the fun starts when you fold in a satellite allocation to Alpha Vee Risk Managed SMID Top 5 Sector Equities (AVT5SMID), which, when you reflect a moment, contributes an enhanced long-term growth profile while taking on bonds to buffer volatility along the way.

Maybe younger clients get 10% in the SMID while older ones get only 5%. You can play with the ratios to derive different outcomes and different glide paths. And then when they retire, Eichel suggests Alpha Vee Risk Managed Enhanced Equity (AVRMENEQ) . . . the standard deviation of a bond with about 8% returns, on average, over the past decade. Not bad at all.