

PENTA DAILY

## Investing with Professional Skeptics

How Tocqueville Asset Management takes a value-stepped approach to managing money for families.

*The following has been excerpted*

By Abby Schultz

Tocqueville Asset Management manages nearly \$7.2 billion in assets for wealthy individuals and families, investing their money via bottoms-up, value-oriented stock-picking. Tocqueville prides itself on contrarian thinking to the extent that Robert Kleinschmidt, the firm's president and CEO, prefers portfolio managers disagree rather than jump into the same stocks. "Whenever we have unanimity among the managers on a given stock, that always gives me pause," Kleinschmidt says.

He's sticking close to the company's DNA. Francois Sicart called the firm he founded in 1985 Tocqueville for the 19th-century French diplomat and historian Alexis de Tocqueville, author of *Democracy in America*, because of the Frenchman's out-of-step but prescient views. As an independent and privately-owned partnership, Tocqueville began by advising a few families and has since grown to 25 partners operating autonomously to serve clients. In all, Tocqueville manages \$12 billion in assets, including some \$4.8 billion for institutions and mutual fund investors in five retail funds, including the \$835 million Tocqueville International Value (ticker: TIVFX) and the \$1.2 billion Tocqueville Gold (TGLDX).

Portfolio managers at Tocqueville are akin to client advisors, in that they have direct contact with the folks whose money they manage, including some families over a couple of generations and for more than 30 years. The clients work with a team—one of eight at the firm—including junior managers and client service administra-



Robert Kleinschmidt, president and CEO of Tocqueville Asset Management, which manages nearly \$7.2 billion in private wealth. ILLUSTRATION: BRAD TRENT FOR BARRON'S

tors. Kleinschmidt is Tocqueville's majority shareholder, chief investment officer, and manager of the \$290 million Tocqueville Fund (TOCQX), but he also runs a team that oversees \$2 billion in assets and that includes his son Paul as a junior manager. To invest as an individual or family with Tocqueville usually requires \$5 million in assets; Kleinschmidt's team requires clients have at least \$10 million.

**Before buying stocks** for their client's separately managed accounts, the portfolio managers get recommendations from Tocqueville's investment committee, stocks

that have gone through weeks of research. Kleinschmidt says he has "cherry picked" three senior analysts in his team to act as official "skeptics," charged with explaining "why the analysts are all wet." The process reveals undiscovered risks and "ensures lively debate," says Paul Kleinschmidt. But at the end of the day, it's up to individual portfolio managers to decide whether to buy a stock. "The decision is their own based on their own understanding, and the understanding of their clients' needs," the younger Kleinschmidt says.

Tocqueville's analysts look for strong businesses trading at a discount to what

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they view as a stock's intrinsic value. The idea is to hold stocks for years, across business cycles. "Our favorite holding period is forever," the younger manager says. It's a strategy that "may not be terribly sexy," he says, but it's been effective for intergenerational wealth management.

One of their holdings: U.S. Concrete (USCR). The concrete maker, based a half hour outside Dallas, emerged from Chapter 11 in 2010 with a new management team that shed all but the firm's ready-mix concrete business. They focused on three key markets where their business could grow – New York/New Jersey, San Francisco, and North Texas – and, in the process, acquired more than 20 local companies. Tocqueville analysts flagged the stock last September, and Kleinschmidt's team began to buy it

a little later, when shares sunk to about \$43, adding to positions when the CFO resigned in March. U.S. Concrete now trades at \$70. Other stocks they've bought in the last 12 months: Lazard (LAZ), McDonald's (MCD) and Arconic (ARNC).

**Tocqueville also guides wealthy** families on trusts and estates, family governance, philanthropy, and some of the softer issues thrown up by family dynamics – but only when clients ask. At heart they are money managers, not a hand-holding multifamily office. Still, the trust required of a money manager often extends far beyond, and might include the question a client recently asked an advisor – "How do I tell my parents I'm changing my religion?"

Lately, the phone is ringing with clients

fearful over how their fortunes may be affected by President Donald Trump. Kleinschmidt's message is always, relax and play the long game. To calm fears, Kleinschmidt recently walked a skittish client with \$100 million in assets through a worst case scenario. The client withdraws \$100,000 a month for living expenses, and with his available assets, could continue to do so for another 100 years. But what if stocks slide 25%? Well, then the client could continue to live as he pleased for another 75 years, far beyond his expected lifetime. "Having someone stand in between them and their emotions, that's something we've been able to do very well," says Kleinschmidt. And that in itself is something of value.

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