

ADVISOR PROFILES

Financial Advisor Botsford Marches to a Different Drummer

Erin Botsford, CEO of Botsford Financial, has a strategy based on clients' cash-flow wants and needs.

By [STEVE GARMHAUSEN](#)

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READY: Absolute-return funds that can bet with or against the market are Botsford's answer to a correction. *Photo: Justin Clemons for Barron's*

Back in the mid-1990s, Erin Botsford decided that the conventional retirement-investing approach was quite possibly a recipe for disaster.

"If you are creating [retirement] income by doing a systematic withdrawal from a balanced portfolio, then a flat market—or worse, a down market—can turn into what I refer to as a death spiral," says Botsford, CEO of Botsford Financial Group in Frisco, Texas.

So Botsford did what few advisors have the initiative or aptitude to do—she developed her own approach. As a result, she says, her clients largely avoided the devastation that followed the dot-com and mortgage meltdowns. Botsford's portfolios continued to provide steady income through the two crises; as a result, clients did not have to liquidate principal to provide income. And that allowed them to avoid the "death spiral" that can be caused by taking systematic withdrawals during declining markets.

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"Prospects are always worried about the next financial crisis," says Botsford, now 58, who manages \$871 million for 542 clients, ranging from business owners to members of the Dallas Cowboys organization. "Once we bring them under our process, they don't worry anymore."

THE NORTH STAR of Botsford's investing approach is the client's cash-flow needs. "Whether clients have \$1 million or \$100 million, they need cash flow," she says.

Botsford reaches well outside the world of stocks and bonds for investments and organizes them into buckets according to their risk level. Her

clients' needs—food, shelter, insurance premiums, for instance—are funded through income from a bucket of conservative investments. Typical investing instruments in that bucket right now include preferred stocks, dividend-bearing blue-chip stocks, and fixed-indexed annuities featuring principal guarantees and guaranteed-income riders.

A moderate-risk bucket, meanwhile, funds the client's "wants," such as country-club memberships or travel. Investments for that bucket, says Botsford, currently include business-development companies, nontraded real estate investment trusts, master limited partnerships, and structured notes (hybrid securities combining, for example, a bond and an option contract).

The Strategy

Location: Frisco, Texas

Clients: 542

Typical Account: \$2 million to \$5 million

Botsford divides clients' investments into three buckets based on risk level. Below, some of her best current ideas.

Conservative

- Preferred stocks
- Dividend-bearing blue-chip stocks

Moderate

- Business-development companies
- Nontraded REITs
- MLPs

Aggressive

- Private equity
- Managed futures

Botsford observes that in traditional retirement-investing models, expenses as fundamentally different as health-insurance premiums and country-club dues are lumped together and effectively treated as equal priorities. "Why do we invest for those things the same way?" she asks rhetorically.

In the "aggressive" bucket, which aims for portfolio growth, Botsford likes private equity and managed futures—an alternative-investing strategy incorporating futures contracts. "Because we know that our clients' needs and wants are already covered, we encourage our clients to be pretty aggressive with their investments in [this] category," she explains.

Botsford's personal history profoundly shaped her approach. Her father died when she was 11, leaving Botsford's mother with six kids and no income. Then, at age 16, Botsford was driving a car when she collided with and killed a motorcyclist. The family was forced to borrow heavily to defend the teenager—successfully, as it turns out—against criminal charges, and they later had to contend with a civil lawsuit, as well.

The experience explains why Botsford is adamant about using asset-protection strategies, which often feature trusts and corporate entities, to shield clients' assets from lawsuits.

Botsford loves illiquid investments for their potentially superior return. "I think you pay a high price in terms of yield for liquidity," she says. "Stocks and bonds don't produce income that's high enough for what our clients want." Illiquid investments also afford a measure of safety against the "lemming effect," she argues: "If it's illiquid for me, it's also illiquid for everyone who wants to 'run on the bank.'"

In the broader market, Botsford expects not just continuing volatility but a "nice, major correction." She's playing the theme through absolute-return funds that can bet with or against the market.

"I love absolute-return anything," she says. "The old days of investing in a mutual fund [for] relative returns are just irrelevant to me."