

Riding High By Karen DeMasters

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John Henry McDonald (he always uses all three names) talks fast and with confidence. University professors and colleagues turn to him as an expert in finances who is willing to share his expertise, but a person has to be prepared. If someone is scheduled to talk shop with McDonald for 15 minutes, he will probably end up in the office of Austin Asset Management Company for an hour and a half.

Although McDonald is now the head of a successful financial planning firm, he is the first to admit he felt somewhat out of the mainstream during the middle and late 1990s when clients of other financial advisors in this boomtown were making a killing in high-tech stocks while he and his clients were plodding along in the low-tech world.

"I ran into a guy I know at a conference the other day, and he looked a little sheepish," McDonald related in his rapid-fire manner of telling stories. "He says he wished he had listened to me a few years back. He had a high-tech stock that was worth \$100 a share then. Now it is worth \$2. It is true, we lost clients during the tech boom because they did not like our advice, but we have had some of them come back and say, oops, you were right." McDonald started Austin Asset Management in Austin, Texas, in 1986, and worked on commission for a time. Eventually he decided he could not sleep at night because of what he calls the conflict created by commission work, and switched to being a fee-only comprehensive financial planning firm. He hired others who agreed with his philosophy and to whom he could delegate some authority, and the company has grown ever since.

"There are only three things you need to know about financial planning," McDonald freely advises anyone who wants to listen. "One, some asset classes do better than others. Two, diversification spreads risk. And three, profits are made by buying low and selling high. Everything else is malarkey (a favorite word of his)."

He attributes his avoidance of high-tech stocks to his ability to stick to that advice and to the fact that "I am not smart enough and I'm awfully lazy," a description with which his colleagues would not agree. While others were putting money into emerging technologies, McDonald's clients were using no-load, low-cost investments.

"It was tempting. I was just like every other fool. The sirens were playing and everyone was saying this is the new paradigm; that you didn't need profits to make money. But I do not believe anyone knows what the future will bring," so investing in what looked like a sure winner was not advisable. Some of our clients lost a little, but not the 75% or 80% that other people lost."

McDonald also freely acknowledges that he does not handle his own money. "Someone else here does that. I have the discipline for handling someone else's money, but not my own. When a stock is low, you buy; when it sinks lower, you buy more; when it is high, you sell. I would not have the nerve to do that with my own money."

Because that philosophy kept him out of high tech when the market was skyrocketing, McDonald says he was sometimes the only one in a room of financial advisors and investors in the late 1990s who was not a millionaire, but he is still here. When Austin Asset Management switched to fee-only in 1994, the firm had \$9 million under management. It now has 270 clients and \$218 million under management, according to W. Eric Hehman, a partner in the firm who handles the administrative end of the business.

"John Henry realized it takes more than one person to bring benefits to the firm and he had to delegate some duties," Hehman says. "Now we are growing 15% to 20% a year. The key to our success is our comprehensiveness. We take the time to ask the right questions. We do not take on many clients, and we do not sugar coat the advice."

The firm has helped people unravel six figure tax bills and reclaim money loaned to children, among many other problems, he says. "Sometimes people are spending too much money and a retirement goal is not achievable. We have to make some changes, and we tell them that," Hehman says.

Keeping clients' long-term expectations down is a rule for Austin Asset, which assures a high degree of success in achieving the end goal, McDonald says. "We track assets every quarter and if the client is under his goal, we talk about it. It is always very clear where the money is going, and if the client is spending too much to achieve a goal, we tell them. There is only one business model at Austin Assets. We have seven certified financial planners, but people do not retain a financial planner, they retain the firm."

If the business model at Austin Asset is somewhat different from other firms, so is the firm's founder. McDonald is described as "old world" and "dapper." He and his firm members come to work in suits and ties every day, something unusual in the Austin heat, and the tie for McDonald is always a bow tie.

Having spent time in the past as an Army drill sergeant, who served in Vietnam in the artillery, McDonald came home to attend college. He then took a career side trip to be lead guitar player and vocalist in a country folk band, A Ragtime Rodeo, before becoming a journeyman carpenter and a working cowboy on the Pinecrest Farms in Smithville, Texas.

"I wanted to learn to use my hands, maybe because I had no marketable skills. I was a drill sergeant, and I did not know anyone who was hiring people who knew how to yell."

