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OC's Rich Eye Deals in Downturn

By PETER J. BRENNAN

Orange County's richest this year are spending more time in Europe, playing more pickleball and eyeing an economic downturn as a potential buying opportunity, according to local wealth managers.

"The wealthy get more excited during downturns because historically those are the times they associate with the best deals of their lives," said **Christopher Whitaker**, a senior financial advisor at Irvine-based **Apriem Advisors**. "What they're doing differently is kicking the tires on asymmetric deals. We're starting to see stress cracks. They're looking for forced sellers of assets."

The Business Journal spoke with numerous OC-based financial advisors to find out what new is going on in the industry, and what they are hearing from their wealthier clients.

Stocks and Bonds

Even though the S&P 500 fell 20% in the first half this year, its worst performance since 1970, OC's richest are not overreacting, the advisors said.

"We have not seen people backing up the Brinks truck," said **Morgan Christen**, chief executive at Newport Beach's **Spinnaker Investment Group**.

"We're seeing most people invest on the value side, dividend payers, mostly domestic. Trimming of technology as they tend to not do well in a rising interest rate environment."

"I don't see a lot of clients panicking, which is interesting," said **Andrew Fuller**, managing director of the Irvine office of **Creative Planning**. "In March of 2020—you had a huge downdraft and then a massive recovery. That volatility freaked people out."

"If you're an astute wealthy investor, I don't think rising interest rates or inflation has taken you by surprise. Many people were expecting this to happen. What did surprise a lot of people was the speed and depth of the change. Markets today are moving at lightning speed."

Advisors are discussing strategies for tax loss harvesting, inflation, liquidity, stress tests and comparing "short-term buckets" versus "mid-term buckets."

Wealthy investors are pulling together their attorneys, tax experts and financial planners to make sure they can pass their wealth onto their children, according to **Mike Jacob**, a private wealth advisor at the Irvine office of **Northwestern Mutual**.

"In the last couple of years, there's been a renewed focus on

their overall planning that's been different than in the past 20 years," Jacob said. "There's been that focused on planning and 'How do I make sure my kids get on better footing.'"

The downturn has given the older generation a chance to transfer their wealth to younger generations at cheaper rates, thus reducing the taxes, according to **Brian Bissell**, a senior vice president and client advisor the Newport Beach office of **Whittier Trust Co.**

"There's a science and an art to this," Bissell said. "The science is how to minimize estate taxes and transfer to the next generation. The art side is preparing the family for the wealth. It's the use of psychology."

Surprisingly, fixed income has made a comeback in the past two months, according to **Ethan Morgan**, the Orange County market manager for **J.P. Morgan Private Bank**.

"We've not seen that in over a decade," Morgan said. "It's been a long time since clients have felt excited about fixed income."

One of OC's wealthiest who is not yet bullish on bonds or stocks or commodities "until the extent of the recession becomes clear" is Bond King **Bill Gross**. He told the Business Journal he's done "very well" with a 5% return in the first half this year.

"Shorts in **GameStop** and **AMC Theaters** have been working," Gross said. "Also have 40% cash in 6-month Treasury bills as well as selective takeover candidates. I shorted bond and oil at the right time."

Private Investments

Private equity investments are exciting OC's wealthiest.

"They are deploying into opportunities as we're marching through a recessionary environment," Morgan said. "They're investing into depressed values. We're doubling down on private equity in dialogue with clients."

Business development companies that offer private credit have become popular because they offer "high single-digit yields" from loans that are basically secured, said **Graham Pierce**, a partner at Newport Beach's **Beacon Pointe Advisors**.

"They're just popping up all over the place," Pierce said. "These types of funds are lending money to small businesses that are no longer getting loans from traditional banks because of Dodd-Frank."

Investors who have cash and aren't heavily leveraged are seeing some of the best deals available in more than a decade, Fuller said.

"I'm seeing a lot of deals falling apart in real estate and in private deals," he said. "Highly leveraged firms woke up suddenly and realized they cannot get the deal done. It's creating a lot of slowdowns and a lot of opportunities."



Mike Jacob
Private Wealth Advisor,
Irvine
Northwestern Mutual



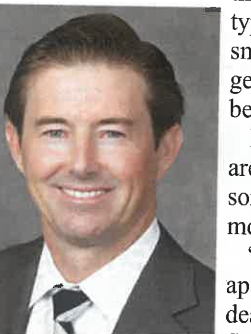
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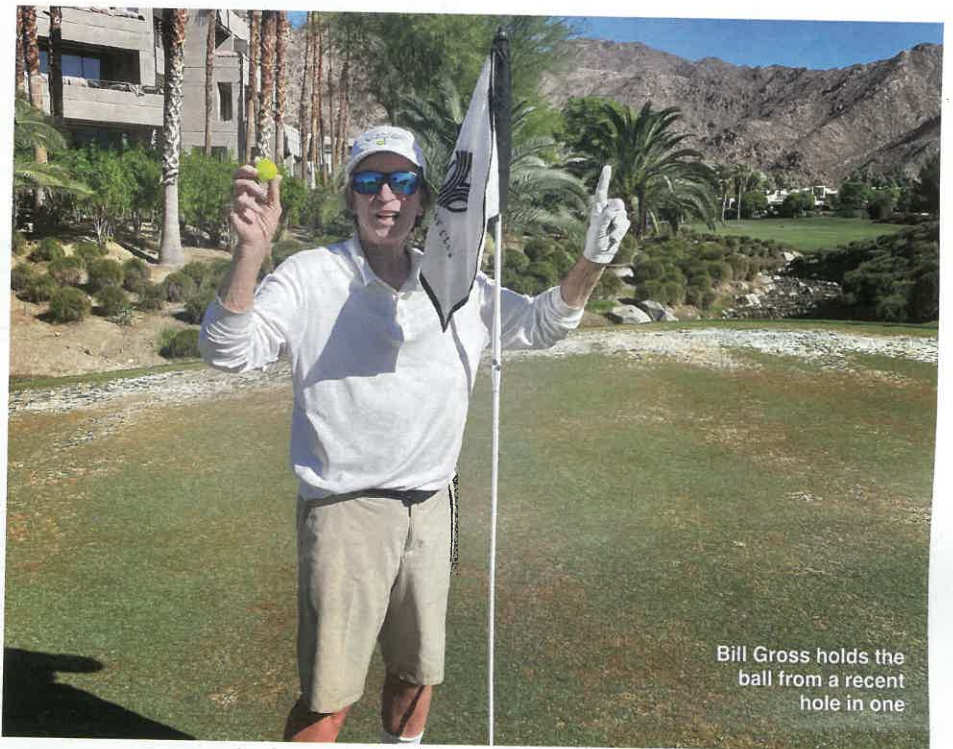
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Brian Bissell
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Bill Gross holds the ball from a recent hole in one

Real Estate

Residential real estate has "definitely lightened up" because of increasing interest rates, Morgan said.

While the rich typically don't need mortgages for high-end homes (see story, page 1), they may use them as a form of leverage and tax advantages, said Morgan, who has handled mortgages topping \$25 million.

Pierce said multifamily apartment complexes are becoming popular investments as the rising interest rates have priced new homeowners out of the market.

"Multifamily tends to be the most recession resistant," Pierce said. "If you own lowly leveraged real estate investments where you have tax efficiency and can raise rents, you're getting a good return."

Charities

Charities are gaining more of a focus nowadays, according to **Lisa Chapman**, a managing director of Wealth Management for **UBS**.

"The rich are reassessing their lives, asking what their purpose in life is," she said. "They're shifting towards legacy planning for charities. They're getting back to core values, taking care of the family."

Fuller said wealthy clients, both liberal and conservatives, are questioning the actions taken during the pandemic by the nonprofits that they donate to.

"Everything is becoming politicized," Fuller said. Donors are telling nonprofits that "if you didn't do what I thought you'd do during COVID, then I'm not giving dollars. It's coming from both sides. They're all asking those same questions."

Vacations

OC's rich are heading off to Cabo, Montana, African safaris or Hawaii, which often seems overbooked, the advisors said.

While Eastern Europe has fallen in popularity because of the Russian war in Ukraine, Western Europe has become fashionable again.

"One client has gone to Paris, and I think [they are] going to stay there," Chapman said. "We're advising that client from here. That's something we haven't seen before."

The dollar's appreciation against the euro has encouraged longer stays in the continent, Morgan said.

"It's combination of the dollar being strong and clients feeling it's time to get out there" following the pandemic, he said.

Restaurants

The advisors said popular restaurants among the wealthy include **Louie's by the Bay** in Newport Beach, **Spaghettini** in Seal Beach, **Marche Moderne** in Crystal Cove, **Knife Pleat** in South Coast Plaza in Costa Mesa and **Chaak Kitchen** in Tustin.

Crystal Cove's new **A Restaurant**, previously known as the Arches, is often booked by his clients, Morgan said.

"I've had a number of dinners there," Morgan said. "That place is definitely getting strong reviews."

Hobbies

The rich are indulging in their usual hobbies like yachts, sailing and golfing.

"They love their boats—fresh air and no crowd gathering," Pierce said.

Gross, a self-described golf fanatic, recently hit a hole in one.

"Happy Father's Day to myself," Gross wrote on Twitter. "I got a hole in one on the par 3, 7th hole of the Vintage Club Mountain Course, 145 yards over the water straight in the hole. 2nd hole in one in 15 years."

Pickleball has picked up steam in recent years.

"Everybody's playing pickleball," Morgan said. "It's crazy. We've got clients putting courts in their backyards." ■



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