When Risks Pay Off

The founders of Symmetry Partners had a gutsy idea and the smarts to make it work.

Patrick A. Sweeny and David E. Connelly have always had focus, confidence and a lot of chutzpah. Now they have the astounding success that came out of it. Together, the two financial advisors founded Glastonbury-based Symmetry Partners in 1994, leaving behind corporate America to pursue their own vision of how to best provide asset management services to clients. At the time, this "David" of a firm dared to enter a market dominated by Goliaths. The results?

At a Glance

Company: Symmetry Partners
Started: 1994
Incorporated: 1994
Headquartered: Glastonbury, Connecticut
Initial investment: DND
First year sales: $50,000
2005 sales: $18 million
No. of employees: 33
Reason for Success: Vision, self-confidence, chutzpah
Challenges: Managing growth

The duo's accomplishments were recognized in July of this year by a *Financial Advisor* magazine survey of the fastest-growing independent registered investment advisors in the nation. Symmetry was number one in the category of firms with over $1 billion in assets under management, as a result of its 115 percent growth (from $72 million to $155 billion) in 2005, representing its astounding success in attracting both institutional and individual clients.

Registered investment advisors generally manage $25 million or more in client assets.

In the Blood

While the partners followed different paths early in their careers, fate placed them side-by-side in 1991 when both joined Dean Witter in Greenwich and shared a common cubicle wall. Interestingly, they still sit side-by-side—now in a large and airy office—15 years later.

Sweeny says the finance business is in his blood. The Long Island native is among the third generation of his family to enter the field. Just out of college in 1983, he began as a runner for Paine Webber on the floor of the commodities exchange. After only a year, he was promoted to the position of trader, buying and selling futures contracts for precious metals. "You have to be smart and loud to stand out," he says.

By 1987, he was ready for a change and became a bond salesman for the institutional market for Dean Witter; two years later, he joined Weeden & Co. L.P., where he moved over to stocks. But after two more years, the fast lane was taking its toll. "It's very rough and tumble and high stress, working long days and at night entertaining clients. It's a young man's game," says Sweeny, who was 31 and had started a family when he decided enough was enough.

He rejoined Dean Witter in its Greenwich office, where he entered the somewhat calmer retail side of the business, selling investments to individual investors (also known as "building a book"). Soon after, he gained an interesting cubicle neighbor.

Co-op Start

Although he had always had some interest in finance while growing up in Stratford, Connelly did not become involved in the field until college. As an undergraduate in Northeastern University's famed cooperative education program in Boston, he held several full-time paid internships as a retail broker's assistant at large mutual fund and a brokerage houses.

The business realities were a bit of a surprise. "I learned that there was an inconsistency, an unevenness of advisor styles and advice," he says. Furthermore, he found that "some companies are more marketing-focused than advice or client focused."

Upon graduation in 1988, Connelly veered away from finance and took a job in the manufacturing sector in order to return to his hometown and care for his ailing grandmother. He worked in the purchasing department of Textron, where he was a machine parts buyer. He soon developed an interest in management and entered a part-time MBA program at the University of New Haven.

Luckily, he says, he was part of a company-wide layoff two years later. "It was perfect timing—they paid for me to go to school full-time to finish my program."

Missing the financial world, Connelly joined Dean Witter in Greenwich, where he would lean over his cubicle wall to get his neighbor's opinions on this or that. "Whaddya think of this product?" he would ask. "Not much," Sweeny might reply.

"That was the genesis of our relationship," says Connelly. "Back then, brokerage firms commonly paid brokers more to push proprietary products, not what's best for the clients."

The pair's collective chutzpah was starting to emerge. "We didn't agree with what the [big] companies were doing, so we thought, 'Why don't we go out on our own? We don't need Wall Street,'" he remembers.

In 1994, they made the leap and founded Symmetry Partners. Like many entrepreneurs, they did whatever they could to make their dream a reality—even working a second job the first year, installing phone cables during nights and on weekends.

They made a conscious decision to act strategically. "We wanted clients that were a good fit for us, not just bodies with money," says Connelly. "Over the first year and a half, we developed our model," says Sweeney. "We have a very narrowly defined philosophy."

"You do not have to predict the way the market is going to be successful," asserts Connelly. "Our philosophy is: markets work." The pair subscribes to the strategy of passive asset management, believing that it is fruitless to try to predict where stocks or the market will go. According to the Financial Planning Association, "Passive investors attempt simply to duplicate their respective investable universes [such as the S&P 500]. Active investors seek out what they consider better-than-average opportunities."

Three Factor Model

Symmetry has developed portfolios of mutual funds, drawn exclusively from a company called Dimensional Fund Advisors (DFA), which pioneered the application of the Fama/French Three Factor Model, developed by two professors from the University of Chicago and Dartmouth.

The model, based on the examination of 50 years of stock market data, focuses on three areas to explain investment returns. According to the DFA Web site, these are:

- **Market:** Stocks have higher expected returns than fixed income.
- **Size:** Small company stocks have higher expected returns than large company stocks.
- **Price:** Lower-priced "value" stocks have higher expected returns than higher-priced "growth" stocks.

DFA constructs mutual fund portfolios based on stocks' size and value characteristics, largely without regard to companies' management quality, market share, or reputation. DFA thus creates its own "index" based on its large universe of holdings.

"This model allows us to pursue two seemingly opposite goals," says Sweeny, "focus and diversification. [Through DFA], we buy 10,000 stocks from dozens of countries, for each client." Isn't this a cookie-cutter approach? No, he says, because portfolio allocations are different for each client.

Commenting on the validity of such an unusual approach, John Knopf, assistant professor of finance at the University of Connecticut, says "There's always a question of what works best. They picked a philosophy that over the longer run has been shown to deliver higher returns, but [the component stocks] are risky."

Based on Symmetry's success, he adds, "They seem to be able to implement it better than others. That's usually how you make a name for yourself—if you're right."

Turning Point

Advisors who work with DFA tend to be passionate in their investment beliefs, and Sweeny and Connelly were no exception. In 2001, an inspiration came to them. Remembers Connelly, "At the time, we had a good close rate, but not enough [prospective clients]. Meanwhile, we were meeting a lot of unhappy financial advisors. We thought, 'Let's leverage this.'" By 2002, they were traveling around the country, holding seminars to educate other financial advisors about passive investing and the Fama/French model.

The partners then did something no other DFA-affiliated firm has done—they decided to bring DFA funds to a large audience. They adapted the DFA portfolios for those who would not otherwise have access to those funds, such as independent brokers or fee-based advisors who might not be able to gain the very selective DFA approval to offer the funds to their clients.

"Since 2002, 90 percent of growth has come from this channel," says Sweeny. That's saying a lot. "We've been doubling in size every year since then," he says. "We're one of the largest DFA firms in the world. We send DFA over $100 million in new business every month."

Also in 2002, Sweeny and Connelly proved that a little bit of chutzpah can go a long way. During that time, the Town of East Hartford was looking for a new firm to manage its almost $130 million pension fund. The partners decided to put themselves in the running, competing against huge corporate players like Merrill Lynch and Wachovia—and won the contract.

"That was probably the most difficult decision I ever had to make," says Don Currey, who was East Hartford's treasurer and chair of the retirement board at the time. "It was a radical 180-degree move. We were looking for alternatives and trying to decide—should we switch managers, switch philosophies?"

What made the town decide to go with such a small and young firm? Part of it was the presentation. "With the more experienced companies comes a lot of information you don't need. We were getting confused. [Symmetry] presented the nuts and bolts; they didn't make it pretty; they made it extremely easy. Their presentation was only eight pages, while others were 30 and 40 pages."

"Besides being young and aggressive, they had the contacts to allow us to use DFA," he says. Furthermore, the town was able to save about $1 million per year in fees. "With passive management, you own everything," says Currey. "The average is much better than dealing with 600 stocks and a crystal ball." In fact, he says the investment performance has been in the double digits, exceeding all expectations.

Strategic Location

In addition to their effective strategies, Sweeny and Connelly say their firm's location in central Connecticut has supported their success in several ways:

- "Hartford sits between New York and Boston, which allows us to service clients from both money centers."
- "We travel constantly, and it allows us to have three optional airports—Hartford, New York and Boston."
- "It's an affordable place to live."
- "It offers us a unique talent pool for our business."

Indeed, Symmetry has needed people. Now at about 40 employees, the firm has hired 33 people in the last four years, and is in the process of hiring another four or five, says Sweeny.

He acknowledges that Symmetry's success stemmed from taking leaps of faith and "believing in ourselves." The key, he says, is, "You have to trust your partner and have the same belief system."

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