

# Investment Philosophy

*Our investment philosophy is simple and effective. When portfolio construction is approached with a defined structure and research-based discipline, wealth can be accumulated through the power of compound growth over longer time horizons. These are the five principles of our investment strategy.*

## 1. Establish a Core Portfolio

- Identify a range of acceptable investment outcomes (risk number).
- Maximize risk/return metrics (GPA).
- Screen for net after fee performance for individual securities.
- Respect the research. Professional money managers rarely outperform their index benchmarks.
- We will only employ active portfolio management when historical performance demonstrates long term value net after fees.

## 2. Diversify Broadly

- The power of diversification is based on the incorporation of multiple asset classes to reduce volatility and increase risk-adjusted return. The result is a smoother and more consistent outcome.
- Proper diversification engages multiple asset classes (US stocks, international stocks, bonds, alternatives) and geographies.
- Some investors make big bets into single stocks representing a significant portion of their portfolio. The results of these concentrated positions can be more extreme than is appropriate for serious money.

## 3. Enhance with Satellite Strategies

- Structured products may outperform stocks over longer periods of time because risks can be mitigated through options strategies.
- Commercial real estate trusts may offer stability and outperform bonds over long periods of time.

## 4. Rebalance Systematically

- Rebalancing is a systematic method for selling high and buying low.
- There is an optimal frequency for rebalancing. If done too often, market cycles are cut short. If not rebalanced often enough, market cycles are allowed to run too long.

## 5. Cost Matters

- Wall Street has done a great job of convincing investors they can predict the future and consistently pick the winners and losers.
- In reality, overwhelming evidence suggests that a low cost passive strategy often outperforms expensive money managers after fees.
- Saving costs by minimizing “Expense Ratios” has a positive compound effect on the growth of a portfolio over long periods of time.

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