ARTICLE:

Three Fundamental Practices

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ASSET ALLOCATION

The process of strategically weighting investments among different asset classes to improve the risk/return tradeoff using the principles of Modern Portfolio Theory and based on your long-term goals, assets, discretionary income and time-horizon.

DISCIPLINED DIVERSIFICATION[1]

Mitigating Unsystematic Risk

Inclusion of multiple asset classes, styles and sub-styles with differing characteristics and methods of management, including active and passive.

SYSTEMATIC REBALANCING

Adjusting asset classes back to established ranges and appropriate levels given portfolio objectives, at stipulated time intervals.

WHAT IS UNSYSTEMATIC RISK? HERE'S A GOOD EXAMPLE:

Best Buy Co., Inc. was the 3rd best performing stock in the S&P 500 in 2013 with a gain of 237%. Obviously many people were buying it throughout 2013, pushing the price up. In 2014 through the end of May, it had lost 31%, ranking it (remarkably) 3rd from the bottom.

In contrast, Newfield Exploration ranked #477 out of 500 losing 8% in 2013. In the first half of 2014 it was up 79.5% and was the best performing stock in the S&P 500.

Another example is the e-coli outbreak at Chipotle. On October 19, 2015, the day of the first reported outbreak, the stock closed at 719. Just one month later, November 20, 2015, Chipotle traded at 536 – a loss of 25% in one month.

"You will never own enough of any one thing to make a killing in it, and you will never own enough of any one thing to get killed by it." –Nick Murray

If you have questions about this or other planning issues, please give us a call at 216-765-0121.

[1] Diversification cannot assure a profit or guarantee against a loss