Veripax FINANCIAL MANAGEMENT, LLC

7037 Rosado Drive, El Dorado Hills, CA 95762
Phone: (916) 358-5635 | Fax: (916) 404-4279
Email: Jerry.Verseput@veripax.net
www.veripax.net

7 Investment Principles That Influence Investment Strategy

All portfolio strategies should begin by identifying the underlying principles and beliefs about investing that determine how a portfolio will be managed. This allows clients to determine if the advisor's ideas are consistent, or at least not contradictory, to their own. Below are seven fundamental principles that influence the investment style that VFM uses, and tend in influence the investment advice we give.

Principle #1: Meeting your financial goals and reducing stress is more important than trying to outperform the market.

This results in a willingness to "take risk off the table" when the market begins showing signs of turmoil or an actual downtrend. Sometimes this means missing out on surprise upward market moves, but there is an equal (or greater) chance of missing deep downturns.

Principle #2: It is better to limit losses than to accept large losses in the hope of a turnaround.

A buy-and-hold philosophy is based on the idea that any amount of loss will eventually be recovered because the market always comes back. However, it is clear from market history that long-term downturns and sideways markets can last multiple decades, so the success of buy-and-hold is largely determined by when your investment period begins and ends.

Principle #3: The market moves in a series of uptrends and downtrends.

The idea of market "trend" has been well-established. The problem is that it takes a little while to determine when an up or down trend has started, and there is no rule that states how long it will last. Despite the uncertainty, it is clear that most positive returns are made during prolonged uptrends (bull markets), and devastating losses can occur during prolonged downtrends (bear markets). Therefore, the goal of VFM's strategy is to avoid as much of the downtrends as possible, and catch as much of the growth during uptrends as possible.

Principle #4: History is not obligated to repeat itself.

Stock returns since the early 1980's have been outstanding, but have also been fueled by an energy bubble, a technology bubble, a real estate bubble, steadily falling interest rates, and a growing national debt. As the Japanese market demonstrated following its real estate collapse in the 1990's, markets are not required to quickly return to their previous highs. The next 30 years may not be a mirror image of the last 30 years, although most investment projections tend to assume this.

Principle #5: Market sectors (Technology, Healthcare, Energy, etc) provide better diversification than asset classes based on company size (large cap/small cap) or geography (U.S./foreign).

This is an area where the data is fairly clear, and is why most mutual funds and individual stock portfolios contain stocks from multiple sectors. If it's important to maintain diversification across market sectors, it seems to make more sense to directly control the diversification with sector-based ETFs as opposed to owning several mutual funds with each manager doing his or her own thing, and often exhibiting something of a herd mentality. For example, owning a large and a small energy company really doesn't help diversify a portfolio that much, but owning an energy company and a healthcare company is definitely a step in the right direction.

Principle #6: Investing decisions must be unemotional.

There is definitely room for emotions in investing, but they should be used in the planning phase, not the implementation phase. Once a risk level has been determined and day-to-day portfolio management is taking place, buy and sell decisions should be based on trigger points that are not influenced by the heat of the moment.

©2010 Veripax Financial Management, LLC. All rights reserved. Do not reprint without permission.

Principle #7: **Costs should be kept low.**

If an investment is saddled with high annual expenses or loads, it must first overcome these expenses year after year in order to simply keep up with lower-cost alternatives. High expenses are extremely difficult to overcome over the long run.

Feel free to call the office or send an email if you would like to understand how these principles are translated into a personalized investment management strategy.

Call or email to schedule a no-cost consultation.

916-358-5635
info@veripax.net

©2010 Veripax Financial Management, LLC. All rights reserved. Do not reprint without permission.