

ADDING VALUE

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“Certainty, n. An imaginary state of clarity and predictability in economic and geopolitical affairs that all investors say is indispensable — even though it doesn’t exist. The unexpected will occur — over and over again, until the end of time. And pundits will forever try to predict what will happen next. But if anyone could predict it then it wouldn’t be unexpected. Thus, hating uncertainty is a waste of time and energy. You might as well hate gravity or protest against the passage of time. The only certainty is that uncertainty will never go away. Get used to it, or get out of the markets entirely and stay out.”

Jason Zweig –
The Devil’s
Financial Dictionary



ADDING VALUE is mailed and posted on our website quarterly to our clients and friends. The intent of this publication is to share some of our more interesting views and research.

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“I believe in Santa Claus, and I believe in the guaranteed annual 10% return.”

Constructing Portfolios for the Long-Term

We have been managing client portfolios for a long time. As with all long-term pursuits, it is worthwhile to periodically re-examine our process for solving the dilemma of long-term investing. Given the year we are about to complete, and the past five years of investment performance dominated by the Federal Reserve zero interest rate policy, some investors are even asking whether holding non-U.S. stocks, and non- S&P 500 index stocks, is at all necessary. We continually observe that the timing of such sentiments tends to be bad - - after all NO ONE ever decided to give up on an asset class after it has had above average performance. (The last burst of “why bother with non-U.S. stocks” occurred just before the top for the S&P 500 in 2000). While some firms list the most demanding aspects of managing an investment advisory firm as finding clients and maximizing firm efficiency, we believe the most challenging aspect of our business is to create multi-decade financial plans that can generate sufficient total return while keeping clients appropriately invested during difficult periods. Ours is a process that balances asset allocation decisions, investor psychology and expectations management.

We begin with a re-evaluation of our Value Proposition.

Value Proposition:

- We deliver high quality individualized investment management and financial planning services so our clients can achieve their financial goals.
- We do this by building each client portfolio one security at a time with a focus on a value based investment philosophy (i.e., buy low, sell high).
- We charge reasonable fees based on the long-term expected rate of return we believe we can achieve for our clients.
- We follow a different path than the mainstream by looking different than a conventional portfolio.
- We require our professional staff to have graduate degrees and professional industry certification, with ongoing annual continuing education requirements.
- We do not have a sales culture. We focus exclusively on intelligent asset management not on our own personal gain from new asset growth.

We believe our clients will reach their goals over long periods of time (everyone has so far!). We stress the importance of comparing results to a client’s particular financial needs, not the return of the market. Due to our differentiated approach there will be times that our portfolios look and act differently than the broad market. We find little issue with being unconventional as long as we can keep our cool during boom or bust periods. We try to deliver value-added after all fees from any source over long-term time periods and we have thus far. It is important to always remember price is what you pay, value is what you get. We believe the price our clients pay is well below the long-term value our services create.

Behind the Scenes, Headlines, Sound Bites

We expect clients to rely on Wright Associates to broadly watch, track and review market changes and trust us to act appropriately when opportunity presents itself (or when opportunity is hard to find!). This is especially true at the fund or security level. We don’t necessarily believe we can know or control the unfolding of macro events; rather, we want to own strong and growing businesses at reasonable prices or decent businesses at good prices. More specifically, we want to hire mutual fund managers that have built an organization focused on intelligent investing that over long periods of time will deliver excellent performance. For our clients, we believe that it is important to have someone on your side that can review investments objectively and as a fiduciary, so that your assets are invested safely, appropri-

ately and always in your best interest. Clients should want someone that avoids the excesses and buys at attractive prices. We do this through thorough fundamental analysis, understanding of the valuation of securities and proper temperament. Satisfactory investment returns are the result of keeping a cool head at all times. It is highly unlikely we will be promoting the latest investment fad, because, simply, if everyone is touting the same analysis, it is probably too expensive.

Basically, the search for an investment adviser boils down to finding someone with the courage to act and the experience and education to act prudently. The market very rarely rewards the “feel good” portfolio. Buying what has worked and selling what has not worked is a strategy that leads to performance chasing and dismal returns. In other words, when one has too much companionship, success is improbable. You advise your children that they wouldn’t leap off a bridge because all their friends are doing it. Likewise, we do not usually recommend investing like everyone else invests. However, it is important to realize our way of investing does not guarantee anything, nor is it necessarily consistent over short-term horizons. Over long-term horizons, we believe, it should work to our clients favor.

Our clients need to know, feel and trust that we have the discipline and knowledge to transact in the market intelligently. To us, discipline means that we need to be able to sell what has done well and endure disappointment patiently. It is the trust in our process that should lead to satisfactory client returns over time. Our initial analysis is always rigorous and as watertight as we can make it. We try to have the rational temperament to battle human nature and not flee at a loss when things look bleak especially if we cannot find any holes in our original investment thesis.

We are, ultimately, trying to maximize returns within client objectives and constraints rather than seeking optimal client satisfaction. Ironically, this ultimately leads to client satisfaction in the long-term. The most trying problem can be the feelings of unease as a portfolio’s short-term underperformance differs from the broad market outperformance. Understanding what we do and why we do it is paramount to client success and a long-lasting and trusting relationship. It also makes it necessary to partner with the right clients. We believe you are the right clients.

One of the most telling charts that we know is shown below. It is a chart with data on investor fund flows that has been collected by DALBAR for over 30 years. It has always been amazing to us how “investor returns” deviate so sharply over all time periods when compared to a standard benchmark.

| | Investor Returns ¹ | | | | Inflation | S&P 500 | Barclays Aggregate Bond Index |
|------------------|-------------------------------|------------------------------|--------------------------|-------------------------------|-----------|---------|--|
| | Equity Funds | Asset Allocation Funds | Fixed Income Funds | Composite Fund Investor | | | |
| 30 Year | 3.79 | 1.76 | 0.72 | 2.47 | 2.70 | 11.06 | 7.36 |
| 20 Year | 5.19 | 2.47 | 0.80 | 3.34 | 2.28 | 9.85 | 6.20 |
| 10 Year | 5.26 | 2.25 | 0.69 | 3.51 | 2.13 | 7.67 | 4.71 |
| 5 Year | 10.19 | 5.09 | 1.21 | 6.84 | 1.69 | 15.45 | 4.45 |
| 3 Year | 14.82 | 7.15 | 0.72 | 9.57 | 1.34 | 20.41 | 2.66 |
| 12 Months | 5.50 | 2.24 | 1.16 | 3.98 | 0.75 | 13.69 | 5.97 |

¹ Returns are for the period ending December 31, 2014. Average equity investor, average bond investor and average asset allocation investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions and exchanges for each period.

For instance, for the 30-year period ended 12/31/14, and individual equity investor earned 3.8% compared with 11.1% for the S&P. It is hard to believe that this entire spread of over 700 basis points (7.0%) is attributable to the high costs of active management. A much more logical explanation is that

individuals are constantly buying high and selling low; the exact opposite of what should be done. A professional investment advisor who can help an investor to avoid this trap is very valuable indeed.

Things that matter; things that never change

1. Avoid situations where there may be a permanent loss of capital; volatility doesn't count;
2. Earn a rate of return sufficient to keep pace with the rate of inflation (so even in your golden years, you have enough money to buy the things that are most important to you – like healthcare);
3. Higher rates of return require an exponential increase in the underlying risk (“volatility”) profile (this tends to not work out well for the risk averse);
4. You can't replace lost time (compound interest is a miracle if used wisely);
5. Portfolios are time frame specific (make sure you understand your personal time frame); and
6. Babies are the best blessing a parent (and grandparent) can receive.

**Benjamin Koebele Wright
Born: November 18, 2015**



HAPPY HOLIDAYS!

Kathleen S. Wright
A. Gregory Lintner
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