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Topsfield Financial Group

Our Investment Philosophy

Our job is to understand a client's personal goals and pair them with a financial and investment plan specifically designed to achieve them. Clients take comfort knowing we are fee-based fiduciaries guided by the high professional standards of our registered investment advisor, Novem Group, and the code of ethics established by the Financial Planning Association and CFP Board. We always place the interests of our clients before our own.

We believe there are differences that distinguish our practice from others:

- Disciplined *rules-based investing (RBI)* that guides portfolio architecture presented in plain language, and easily understood investments.
- Our premise that wealth accumulation is achieved through efficient asset allocation, informed expectations, financial planning, and the evaluation of progress.
- A learning-based environment that leads to a more comfortable inclusion of stocks.
- Our commitment to minimize advisory and transaction fees.
- Comprehensive data reporting that is readily accessible and easy to understand.
- We employ the basic tenets of the Uniform Prudent Investor Act (amended 1992) and its holistic approach to investment practices.
- Organic business growth dependent on client satisfaction and referral.

Our investment philosophy and approach to portfolio management

We follow a specific methodology of portfolio design supported by our core investment beliefs:

- We believe capital markets are efficient, investors behave irrationally, and stocks are a productive means to create inflation-adjusted wealth over long-term time horizons.
- We embrace the research of Harry M. Markowitz and his theoretical constructs of Modern Portfolio Theory (MPT) which suggests portfolio diversification can create efficiencies and reduce volatility. Supporting academic research includes work by Treynor, Sharpe, Ferri, Fama and French, Gibson, Ibbotson, Swenson, Bengen, and Pfau. Together they collectively influence our portfolio design, ongoing investment management and methodical assessment.
- We think it is rare for active investment managers to consistently predict market direction or outperform a benchmark.

Portfolios are comprised of stocks and bonds. Historically, stocks (equities) are the asset class that offer the greatest possibility for long term reward, but they also reflect the greatest potential to deviate from an expected return. This deviation becomes particularly evident in periods of extreme market volatility. The appropriate inclusion of stock is the product of thorough discussion; however, we strongly recommend the development of a comprehensive financial plan to support any recommendation. A financial plan integrates investing and personal planning. A plan also helps avoid the possibility of an investor selling stocks when valuations are low, which can transform a temporary drop in value into a permanent loss of capital.

Our rules-based philosophy purposefully restricts each asset class to a minimum/maximum holding range designed to avoid adverse consequences of misguided market forecasting and advisor bias. Our portfolios are broadly diversified with range bound allocations to small, mid-sized and large U.S. companies. We also maintain limited exposure to international stocks and a tactical holding. When constructing portfolios, we believe investment style is an important consideration. Beyond the size of a company, style refers to a belief that the stocks held within an exchange traded fund (ETF), mutual fund or closed end fund are selected because of their high future earnings potential (known as growth stocks) or their comparatively low prices (known as value stocks). Individual stocks may be considered, but only if they align with our diversified philosophy.

There are several reasons we allocate capital to bonds: they can earn interest, are generally less volatile than stock, and may be sourced for liquidity when stocks are in decline. Thus, the greater the exposure to bonds, the less likely a portfolio is expected to deviate from an anticipated return. We monitor comments made by the Federal Reserve, interest rate movement, and global economic conditions to help determine bond quality, maturity, duration, and sector analysis.

Portfolios are continuously analyzed for any change in risk and return characteristics, overlapping stock positions, leverage, geographic exposure, concentrated sector concerns, and historical performance in various market conditions. Our decisions are guided by a wide array of research providers, professional organizations, publications, and analytical software. We rely on a variety of sources for market and financial planning perspectives including the American Association of Independent Investors, Schwab, Argus, Fact Set, CFP Board, CFRA, eMoney, the Financial Planning Association, Journal of Financial Planning, Morningstar, Riskalyze, Seeking Alpha, Thomson Reuters, TD Economics, Barrons, YCharts and the Wall Street Journal. We continuously review information and white paper research made available to us by the Vanguard Group, Fidelity, Blackrock, Van Eck, First Eagle, American Funds, Franklin Templeton (ClearBridge Investments), and Fairlead.

Financial technologies continue to expand the breadth of investment selection. In the past many advisors relied solely on the inclusion of mutual funds as the best diversified path to both stocks and bonds. Stock selection inside a mutual fund is actively managed by individuals or teams, which often comes with a cost. When considering a mutual fund we evaluate internal expenses, performance, strategy, and benchmarking. A fund company must be open to speaking directly with us regarding attribution during periods of both outperformance and underperformance. Our research demonstrates that stock selection in certain asset classes such as international or small caps may justify the expense of active management. Cost concerns led us to evaluate ETFs, which are traded like individual stocks and similar to mutual funds in that they provide diversification, but often at a fraction of the cost. Simply investing in mimicked indices (such as the S&P 500 index) is known as a passive approach to investing. However, ETFs also offer a broad selection of market exposure and methodologies that select stocks through particular screening metrics. All ETFs require evaluation of operating expenses, share price, index methodology, stock selection factors, and trade volume.

Our research is represented in four distinct portfolios entitled preservation, conservative, moderate and aggressive. Aggressive portfolios remain fully invested throughout all phases of market and economic cycles, however, there could be periods that exposure to stock could be less than 100%. This scenario becomes possible when we deploy the maximum 10% allocation to a tactical strategy which at times, could have allocations to bonds. For all other portfolios, exposure to stock will range 10% above or below their neutral weighting, including a tactical position. For example, if one's financial plan and risk tolerance identifies a 65% weighting to equities (our moderate portfolio), then exposure to stock would not drop below 58%, nor exceed 71%. Stock weighting is based upon economic data, market conditions, and technical awareness of a multitude of market metrics.

Cost efficiencies in custodial trading platforms have enabled us to provide services to investors with less than $50,000. Custom portfolios may be created for high net worth (HNW) investors that allow allocations to asset classes with potentially higher returns, lesser liquidity and a focus on tax efficiency. We also offer portfolios with economic, social and governance objectives, if requested. Our clients have come to rely on our professional advice as they need it, which is centered around an understanding of their personal plans, changing circumstances, and financial goals.

Model Portfolio Asset Allocations

	100% Equity			Moderate 65/35			Conservative 50/50			Preservation 30/70		
Equities	**Min**	**Neutral**	**Max**	**Min**	**Neutral**	**Max**	**Min**	**Neutral**	**Max**	**Min**	**Neutral**	**Max**
Large Cap	41.3%	59.0%	76.7%	26.8%	38.4%	49.9%	20.7%	29.5%	38.4%	13.1%	18.7%	24.3%
Small/Mid Cap	11.2%	16.0%	20.8%	7.3%	10.4%	13.5%	5.6%	8.0%	10.4%	3.4%	4.8%	6.2%
Global	11.9%	17.0%	22.1%	7.7%	11.1%	14.4%	6.0%	8.5%	11.1%	3.6%	5.1%	6.6%
S&P 500 Subsectors	0.0%	7.5%	10.0%	0.0%	4.9%	6.5%	0.0%	3.8%	5.0%	0.0%	1.5%	3.0%
		99.5%		58.2%	64.7%	71.1%	44.8%	49.8%	54.7%	27.1%	30.1%	33.1%
Tactical Allocation	0.0%		10.0%	0.0%		6.5%	0.0%		5.0%	0.0%		3.0%
Fixed Income & Cash		0.5%		41.8%	35.0%	28.9%	55.2%	50.0%	45.3%	72.9%	70.0%	66.9%
		100.0%			100.0%			100.0%			100.0%	