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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 a fee-only firm guided by the high professional standards of our registered investment advisor, Novem Group, with whom we maintain a strategic partnership to support our advisory services. We adhere to the fiduciary 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:

- Our belief that management fees hinder performance and our commitment to keep them as low as possible.
- Disciplined *rules-based investing (RBI)* that guides portfolio composition presented in plain language and easily understood investments.
- Our premise is that wealth accumulation is achieved through efficient asset allocation, informed expectations, financial planning, and the evaluation of progress.
- 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 integrated approach to investment practices.
- Our business growth is solely 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 source 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 works by Treynor, Sharpe, Ferri, Fama and French, Gibson, Ibbotson, Swenson, Bengen, Kitces, 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.

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 any 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).

There are several reasons we allocate capital to bonds: they can earn interest, are less volatile than stocks, and may be a source 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. Our sources include Kitces, YCharts, Morningstar, the American Association of Independent Investors, Schwab, Argus, Fact Set, CFP Board, CFRA, eMoney, the Financial Planning Association, Journal of Financial Planning, Thomson Reuters, Barrons, and the Wall Street Journal. We continuously review information and white paper research made available to us by the Vanguard Group, Fidelity, Blackrock, PIMCO, State Street Global Advisors, Cliffwater Private Capital, First Eagle, American Funds, and Franklin Templeton.

Financial technologies continue to expand the breadth of investment selection. Our portfolios are primarily constructed of low-cost ETFs, which are traded like individual stocks and provide diversification that is central to our investment philosophy. Simply investing in mimicked indices (such as the S&P 500 index) is known as a passive approach to investing. However, ETFs offer a broad selection of market exposure and methodologies that select stocks through various screening metrics. All ETFs also require evaluation of operating expenses, share price, index methodology, stock selection factors, and trade volume. We go through the same selection process when considering the inclusion of a mutual fund. Our research demonstrates that stock selection in certain asset classes such as international or small caps may justify the expense of active management.

Our research is represented in four distinct model portfolios entitled preservation, conservative, moderate, and aggressive. Preservation is considered in the context of having enough stock exposure necessary to “preserve” purchasing power in the presence of inflation. 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 any stocks that may be held within 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%. Rebalancing to a neutral weighting in equities is our normal response to periods of outperformance or underperformance of capital markets as measured by our respective benchmark, the S&P 1500. A more meaningful movement away from a neutral position in equities would be our response to rare periods of extreme volatility often sourced from an unforeseen cause that threatens capital market systems.

Custom portfolios are routinely created for high net worth (HNW) investors that may include allocations to individual stocks, individual corporate and municipal bonds, and illiquid assets such as alternative investments including private credit and venture capital.

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%	

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Client Signature/Date

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Client Signature/Date