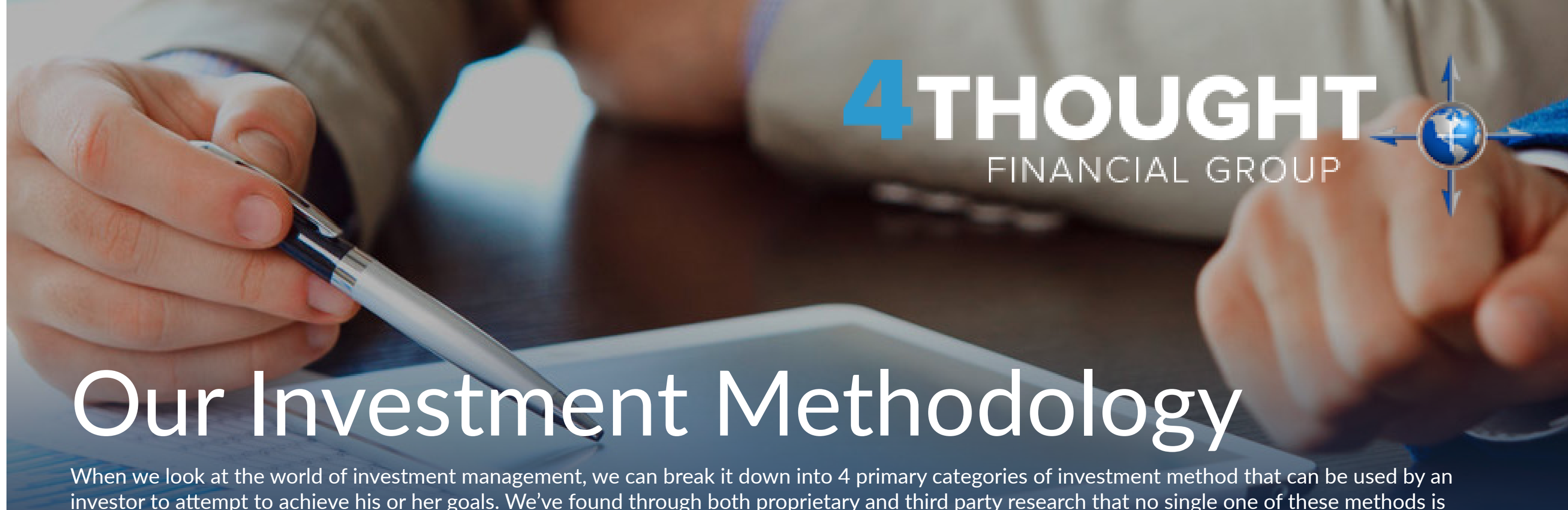

Our Investment Methodology

When we look at the world of investment management, we can break it down into 4 primary categories of investment method that can be used by an investor to attempt to achieve his or her goals. We've found through both proprietary and third party research that no single one of these methods is effective in all scenarios, but instead that each approach tends to have a particular market environment or part of the market cycle to which it is very well adapted. Our conclusion is that in order to achieve one's life goals, one should diversify at the level of investment method, applying the most effective aspects of multiple completely divergent methods of investing, and not be dogmatic about using a single method. The broad categories of investment method can be seen as four pillars of a complete investment portfolio management methodology:

THE FOUR PILLARS

1 Liability Driven Investing

LDI is often used by large institutions such as banks, insurance companies, and pension funds. It is based on the concept of directly matching investor assets with the entity's known, quantifiable risks and liabilities in an attempt to transfer these (and possibly market-related risks) to another party. It often involves the heavy use of fixed income (bond) instruments, and possibly derivatives.

2 Strategic Asset Allocation

Strategic Asset Allocation is the most widely utilized and accepted method of investment. It involves setting a predetermined percentage split between stocks, bonds, and other asset types (an asset allocation); diversifying by asset type and number of securities as much as possible within these categories; and rebalancing back to the original splits as market values shift (making target allocation changes only as necessary based on changes in the investor's objectives, risk tolerance, and life cycle).

3 Opportunistic Investing

Opportunistic Investing is a very broad category that encompasses a vast number of sub-categories, all of them sharing the goals of beating the market (either on the upside, the downside, or both) or (such as in 4Thought's case) providing low correlation returns with the more traditional stock/bond portions of an investor portfolio. Many hedge fund strategies fit in this category, as do tactical asset allocation approaches and absolute return strategies.

4 Selective/Concentrated Investing

Selective or Concentrated Investing is the oldest form of investing, and involves taking positions in one or more individual companies or securities in an attempt to take advantage of some inefficiency related to the price of that security, to capitalize on an associated idiosyncratic risk of the stock, or in expectation of future growth in the company. Most private equity funds apply this method, as do the more selective "Value" and "Growth" styles of stock investing.

We've identified the Wolf Market and Eagle Market in addition to the traditional Bull and Bear portions of the market cycle.

Bull
Characterized by investor confidence and rising asset prices, a Bull Market will be best attacked using Strategic Asset Allocation.

Bear
Characterized by investor fear and declining asset prices, a Bear Market will be best attacked using Liability-Driven Investing.

Wolf
Characterized by investor uncertainty and volatile asset prices, a Wolf Market will be best attacked using Opportunistic Investing.

Eagle
Characterized by investor exuberance and soaring asset prices, an Eagle Market will be best attacked using Selective/ Concentrated Investing.

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