Planning & Investment News
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STRATEGY UPDATE: LOWER VOLATILITY PORTFOLIOS

As uncertainty has increased in the markets, we have increased our efforts to reduce volatility. We have always had the objective to decrease the impact of market swings (i.e. volatility) on a portfolio, but it has become of even greater importance in the last several years. Though lowering volatility may decrease the chance of having exceptional high returns, it may also reduce the chance of having gut wrenching declines.

This "tortoise and hare approach" will potentially make it easier to sleep at night because your accounts are not rapidly changing in value and might even result in greater wealth over the long term. Consider the following two hypothetical accounts:

Portfolio	Beg. Amount	Return Period 1	Return Period 2	Return Period 3	Ending Value	Avg. Return
A	$100,000	10%	10%	10%	**$133,100**	10%
B	$100,000	25%	-20%	25%	**$125,000**	10%

Both portfolios have an average 10% return. And though Portfolio B had great returns in period 1 and 3, Portfolio A actually resulted in more money in the end. By lowering volatility, we can aim for lower, and potentially smoother, returns in a portfolio as shown below:

Portfolio	Beg. Amount	Return Period 1	Return Period 2	Return Period 3	Ending Value	Avg. Return
C	$100,000	9%	6%	9%	**$125,938**	8%
		as compared to Portfolio B above			$125,000	10%

Prior to 2007, we approached investing from a *strategic* perspective. As we felt we were in a period of rising markets (think when "buy and hold" made sense), we used investments engineered to provide exposure to the markets in an efficient manner - in a sense doing our best to take what the markets gave us.

Though of course we could be wrong, we now perceive that we are in a period of more "choppy" markets with more down years than the historical average. Our new strategy is not an attempt, as the commercial says, "to take the scary out of life", but a measured response to our perceptions of new worldwide risks. Our investment perspective is now more *tactical* in nature. Our current strategy is more concerned with the individual elements of the portfolio - attempting to use investments not only "right" for the times, but also with the ability to offer some downside protection.

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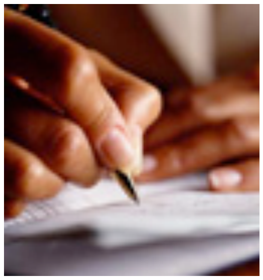

This *tactical* approach using the potentially lower volatility portfolios is not as efficient as the *strategic* approach. If the markets do indeed return to the long term pattern of positive results, our performance will lag. However given the uncertainties in our world, we think the "slower" *tactical* approach is more prudent. We will be alert for signs that the markets have returned to long-term trends signaling that the more *strategic* approach may become appropriate.

Please contact us if you would like a current example of our lower volatility portfolios.

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