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Longview "INSIGHTS" Newsletter

"helping clients grow, protect and distribute their wealth"

December 2009

This is a report published by Five Star Wealth Manager Keith Tufte of Longview Wealth Management, LLC with insights on investing and wealth management.*

INVESTING QUOTES OF THE MONTH: "I OWN LAST YEAR'S TOP PERFORMING FUNDS! UNFORTUNATELY, I BOUGHT THEM THIS YEAR." – ANONYMOUS. "THE VERY BEST INVESTORS DON'T EVEN TRY TO FORECAST THE FUTURE. RATHER, THEY SEIZE SUCH OPPORTUNITIES AS THE PRESENT AFFORDS THEM." – JAMES GRANT (EDITOR OF GRANT'S INTEREST RATE OBSERVER).

INVESTING – WHAT WE BELIEVE

Our core beliefs about investing are based on four decades of rigorous academic research by many of the smartest financial minds in the world (including many Nobel Prize winners in finance). This is how the really smart money invests. In many cases these core beliefs are different (and often the opposite) from what Wall Street and the financial media are constantly saying. Wall Street and the financial media are financially motivated to encourage lots of trading and to sell advertising and "excitement." We are motivated to help our clients using liberating strategies that actually work over time. We use these core beliefs to help our clients reach their financial goals with confidence and peace of mind so they can spend their time enjoying life.

INVESTING – OUR FUNDAMENTAL BELIEFS:

1. The financial markets are very efficient (but not perfectly efficient at all times).
2. It is extremely difficult (nearly impossible) to consistently "time the market." Most who try will lag well behind a "buy and hold" strategy. Timing the market is so seductive because with hindsight it is so easy to see what you should have done and how much money you could have made if you could have timed it right. Timing the market requires being right twice (when to sell and when to buy back). Dalbar has done several extensive 20-year studies showing that the average investor actually achieves less than half the market return over time due to "chasing performance" and bad market timing decisions.
3. It is extremely difficult (nearly impossible) to consistently pick individual stocks that beat the market. The genius stock picker is a myth and is often based on short-term luck rather than skill. There is overwhelming research evidence over many decades showing that active management fails to add value. "It's OK to pick stocks, just don't take it seriously" - Merton Miller (Nobel Prize winner in finance)
4. It is extremely difficult (nearly impossible) to pick active fund managers who will beat the market in the future. Past track records are not predictive of future investment performance. As a result of chance there will always be managers who beat the market, but there is no way to successfully identify them ahead of time. The average active fund manager's returns will lag the market return by the extra trading costs and expense ratios on their funds (often around 1%-1.5% for active equity funds). The best predictor of future fund performance is the expense ratio on the fund. About 75% of active fund managers lag behind their benchmark indices over time on a pretax basis. A study by Robert Arnott showed that after taxes 90% of active funds lagged behind an index fund. Active management of investment portfolios is the triumph of hope (and advertising) over reason. Due to the large amount of volatility and noise in stock performance it takes a very long time to know whether investment results are really luck or skill. According to Kenneth French (famous finance professor at Dartmouth College) it can take 30+ years of data to say with any statistical significance that a fund manager has added any value above the market return beyond what luck or randomness may have caused. By then the manager is retired.
5. Asset allocation drives over 90% of portfolio investment returns over time (according to research by Brinson and others). We are focused on asset allocation because that is what really matters. Market timing and stock picking are the focus of most brokerage firms and the financial media but, combined, they account for less that 10% of portfolio returns.

6. Passive investing is the most efficient investment strategy. More and more investors (both institutional and individual) are realizing that active management is not the best way to invest. Warren Buffet (likely the greatest investor of all time) says, "Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees." Passive investing reduces the "relative underperformance risk" of active management.

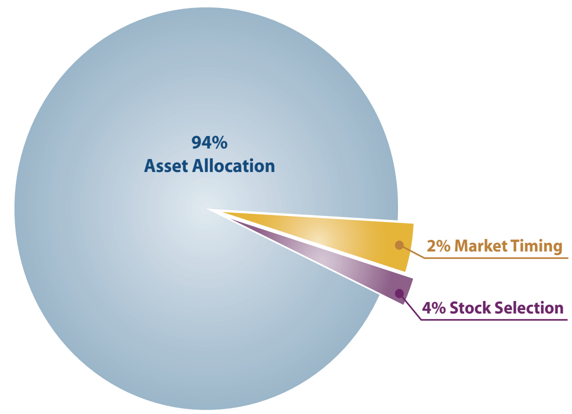
7. Maximizing diversification across many asset classes and geographies is the best way to reduce risk. Most investors are not adequately and properly diversified.

8. Capitalism is what creates wealth over time. Wealth is created over time through corporate earnings growth and economic growth. Our job is to make sure that our clients fully participate in this overall capital market rate of return with a broadly diversified portfolio.

9. Good investment advice is not a forecast about the future. You can't predict the future. You do not need to forecast the future to be a successful investor.

10. Over long periods of time small company stocks and value stocks have outperformed large company stocks and growth stocks. They have outperformed because they are slightly more risky, they are less well-known, and they are "harder to love" than large growth stocks such as Microsoft and Google. We expect small and value stocks will on average continue to outperform in the future over long periods of time.

Asset Allocation Drives Investment Returns



Data from Brinson Research Study

11. By definition "investing" is long-term. Trading and speculating is short-term and often risky and unproductive. It is very important to understand the difference. We are long-term investors.

12. We add significant value and performance to our client portfolios relative to other investment advisors and strategies through 1) lower investment costs, 2) lower taxes and 3) superior portfolio construction. We provide discipline to the investment process and help prevent our clients from making the big mistakes that often ruin long-term investment results.

If you know anyone that is looking for a different approach to investing and wealth management, we would be happy to meet with them.

Longview Wealth Management, LLC provides unique wealth management services for a select group of client families to give them peace of mind. Longview is run by Keith Tufte, who has over 23 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor.

Please FORWARD this e-mail to any friends/relatives/business associates that you think may have an interest.

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