



# Longview “INSIGHTS” Newsletter

“helping clients grow, protect and distribute their wealth”



July 2013

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

## INVESTING QUOTE OF THE MONTH:

“Equities will do well over time — you just have to avoid getting excited about them when other people are getting excited.” Warren Buffett



## INVEST LIKE A STOIC NORWEGIAN?

Norwegians are famous for being stoic and unemotional, which is actually an advantage when it comes to investing. I am Norwegian. The country of Norway has one of the largest investment portfolios in the world at approximately \$700 billion. This money comes primarily from their large oil industry, and they expect the money will provide for their citizens for many generations to come (a very long investment time horizon). We like to watch what the largest and most experienced money managers in the world do in their portfolios, and benchmark ourselves against them. Some of the largest investors we like to watch are the Norway Fund, the Abu Dhabi sovereign fund, CALPERS, and the Harvard and Yale endowment funds. We like to watch these large investors to see what they are invested in and what changes they make to their asset allocations. Our investment strategy is very similar to how some of these giant endowment funds operate.

## WHY ARE THESE BIG ENDOWMENT FUNDS GOOD BENCHMARKS FOR WEALTHY CLIENTS?

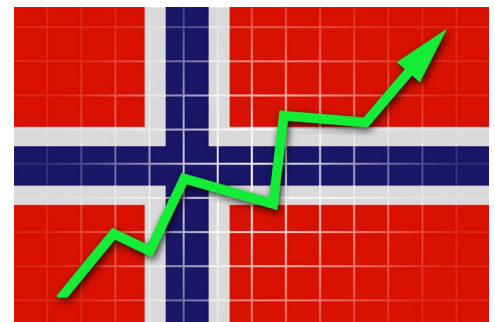
- They are some of the largest, smartest, and most experienced investors in the world.
- They take a global view, and have a very long-term investment horizon (multiple generations).
- They focus primarily on asset allocation, as opposed to individual stock or fund selection.
- They focus on safety/risk/volatility, as well as the growth/returns of the portfolio. The Norway Fund has a 35% target allocation to bonds to keep the risk of the portfolio down.
- They focus on controlling their spending from the portfolio, so it lasts for many generations. The Norway fund only spends up to 4% of the portfolio value per year, which is a sustainable withdrawal rate for a tax exempt institution as well as for most wealthy families.
- They are concerned with stewardship and governance issues related to investing, spending, and giving the money. They are fiduciaries of the money for future generations.

## WHAT IS DIFFERENT ABOUT THEM?

- Most of our clients are taxable investors, while most of these giant pension/endowment funds are not taxable. We use a wide variety of tax strategies to help minimize our client’s taxes.
- They are much larger than we are in terms of assets, staff size, and resources.

## THE NORWAY GOVERNMENT PENSION FUND

The goal of this \$700 billion fund is to achieve good long-term returns with moderate risk. Their target asset allocation is 60% stocks, 35% bonds and 5% real estate. The fund has no debt and no short-term liquidity needs. They are investing for the very long term. Sixty percent of their holdings must match a benchmark index and the rest of the portfolio must stay very close to the index (with a 1% cap on tracking error relative to the index). Only 7% of the fund is managed by active managers. As you know, we are also focused primarily on index-based funds. The Norway portfolio is very global, with investments in 68 different countries. They rely almost exclusively on publicly traded securities, with very little or no allocations to hedge funds or private equity funds (just like us). The vast majority of the money is managed in-house (over 95%). External portfolio managers can be used selectively (in emerging markets and small company stocks), but they are chosen carefully and monitored closely.



Continued on back >>

## WHAT CHANGES HAS THE NORWAY FUND BEEN MAKING OVER THE PAST COUPLE OF YEARS?

- Increased their allocation to real estate. Real estate is being used as a substitute for part of the bond portfolio. This is being done for diversification and because real estate is a better inflation hedge than bonds.
- Added emerging market bonds to their benchmarks and portfolios.
- Changed from a market weighting to a GDP weighting on their bond allocations. This makes sense to use a fundamentally weighted index, especially with bonds.
- Changed their bond benchmark to exclude U.S. asset backed bonds (auto and home loans). These have proven to be too risky and not transparent enough.

## WHAT CAN WEALTHY INVESTORS LEARN FROM THE NORWAY FUND?

- Have core beliefs about investing and how the world works. Our core beliefs that match the Norway Fund are: 1) the markets are largely efficient-index investing works; 2) diversification is important for risk control; 3) asset allocation is the primary driver of portfolio risk and investment returns; 4) focus on preserving wealth and growing wealth-keep the risk in check; 5) the fund should be managed to a specific benchmark or investment policy statement; 6) external managers should be used selectively; and, 7) spending from the portfolio must be done at a prudent level (the 4% rule) to allow for the portfolio to last for generations.
- Stick to your investment strategy. Don't let emotions drive your investment strategy or decision making. The Norway Fund suffered a large loss in 2008 (along with most other investors). They stuck with their investment strategy and asset allocation (they didn't sell low), and now the fund has rebounded back to new highs. The Norway fund does a monthly rebalance back to their target asset allocation, and invests the incoming cashflows to maintain target weights.
- Make portfolio changes in a measured and gradual way. The Norway Fund is very thoughtful about making any significant portfolio changes. They do considerable research first. They are not trying to be at the cutting edge by using new or untested investment products or strategies.
- Keep the majority of your portfolio in liquid, low cost, and transparent investments.
- Costs matter. The Norway Fund's investment management costs as a percentage of assets are extremely low, thanks in part to their large size. They minimize costs by managing most of the money in-house, by indexing most of the money, and by avoiding the most expensive types of investments such as hedge funds and private equity funds.
- Keep your stock and bond portfolio quality high. Most of the bonds in the Norway Fund are high quality government or corporate bonds from countries all around the world. The stocks in the fund are mostly large global blue-chip companies. The real estate they are buying is very high end buildings mostly in Paris and London so far.
- Invest globally. The Norway Fund invests all around the world, and has 100% of their money invested outside of their home country. We encourage our clients to think and invest globally for potentially higher returns and lower risk by increasing diversification (country and currency risk).
- Avoid any conflicts of interest. The Norway Fund does not invest in Norwegian stocks, bonds, or real estate. As an independent, fee-only, registered investment advisor we also run our business in a way that minimizes or eliminates conflicts of interest we may have with our clients. We are a fiduciary for our client's investments and act in their best interests.

We will continue to monitor these leading global funds over time, and to benchmark ourselves against them. Much of what they are doing is very similar and applicable to managing wealth for high net worth families. Our goal is to watch and learn from the biggest and the most experienced, and to use what we can from them where applicable to continue to improve our wealth management services for our clients each year.

*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. Please visit our website at [www.longviewwealth.com](http://www.longviewwealth.com).*

### **LONGVIEW WEALTH MANAGEMENT, LLC**

Keith N Tufte, President, CFA, MBA • [keith@longviewwealth.com](mailto:keith@longviewwealth.com) • Office (952) 906-1289 • Cell (952) 465-1785

*\* Five Star Wealth Manager as published in Twin Cities Business Magazine.*

*Legal Disclaimer: These materials do not constitute an offer or recommendation to buy or sell any securities or instruments or to participate in any particular investment or trading strategy. They are for informational purposes only. Longview gathers its data from sources it considers reliable. However, Longview makes no express or implied warranties regarding the accuracy of this information or any opinions expressed by the author and may update or change them without prior notification.*