

ifs Integrated Financial Strategies, Inc.

Partners in the Creation and Preservation of Wealth

IFS INVESTMENT DOCTRINE... *for intelligent investing of serious money*

For investing to be reliably successful, an accurate assessment of the factors that determine expected return potential is indispensable. Without it, any hope for consistent investment success is just that: hope.

An accurate measure of value, based on a solid factual and analytical foundation is essential.

Two other dimensions -- company size and expected profitability can be used to further analyze return potential.

The investment process must be rigorous, disciplined and based on scientific evidence ... It is by necessity comparative.

To be considered a dimension of expected return, a premium must be sensible, persistent across time, pervasive across markets, robust to alternative specifications, and cost effective to capture in a well-diversified portfolio.

Good portfolio structure should (a) select and/or weight stocks to continually and accurately target the dimensions of expected returns, (b) maintain appropriate diversification to help control risk and allow for effective execution, and (c) minimize unnecessary turnover.

To enhance long term investment performance potential by incorporating identified dimensions of expected return a portfolio must diverge from the norm. Consequently, investor expectations and thus portfolio returns have to diverge from the norm....

Investors who implement an approach based on scientific evidence that intentionally diverges from the market, must hold to it firmly. In the world of investing, being correct isn't synonymous with being correct right away.

Our goal is not to structure a portfolio of "best companies", it is to structure a portfolio of better investments. That is, it is not only what you buy – it is what you pay for it.

Dealing with risk is an essential element in investing. Consequently, it is important to structure portfolios in a manner that will allow you to hold on - and not sell - at the worst times. This requires appropriate investment strategies and strong psychological resources.

Short term, psychology can affect price. Investor attitudes and behaviors are like those of a pendulum. Although the midpoint of its arc best describes the location of the pendulum "on average" it actually spends little time there. Instead, it is always swinging toward or away from the extremes of its arc. In fact, it is the movement toward an extreme itself that supplies the energy for the swing back. The pendulum swings between the extremes of euphoria and depression, over-valued and under-valued, greed and fear, optimism and pessimism and between risk tolerance and risk aversion.

The most dangerous investment is often at the peak of its popularity. At that point, all favorable facts and opinions have been priced in, and there are few new buyers left to buy. One potentially safe and profitable investment to buy may be something that no one likes. If it is a sound investment, in time, its popularity and thus its price, may increase.

Portfolio rebalancing often forces an investor to sell more popular high-priced assets to buy less popular lower priced assets. Buying at lowest price and selling at the highest price requires extraordinary luck. Buying on average lower and selling on average higher is a matter of intentional design.

There is usually someone who gets it exactly right... but it is rarely the same person twice.

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