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### Investment Management



Investment management is the traditional core of wealth management or financial planning as practiced today. Many financial planners concentrate more on investment management than on any other portion of the wealth management or financial planning process.

#### **Asset allocation should lead the conversation**

We believe that investment management conversations should always start with a conversation about asset allocation. Although asset allocation does not guarantee against loss, research has shown that slightly more than 90% of your investment return will be determined by the allocation you choose for your investments. Approximately 4% of your return is achieved by the actual selection of stocks and bonds. (Brinson, Hood & Beebower, Financial Analysts Journal, 1986; Brinson, Singer & Beebower, Financial Analysts Journal, 1991 )

#### **Concentrate on volatility**

The next portion of your investment strategy should concentrate on the projected volatility of your portfolio. We believe that managing downside risk is much more important than concentrating on upside potential.

If you have \$1,000 and have a 100% gain in your investment, you will now have \$2,000. If you take \$2,000 and have a 50% reduction in value, you will once again have \$1,000. For this reason we believe that concentrating on a strategy that helps minimize downside risk is important for the long-term health of your portfolio.

#### **Core and Satellite Investing**

The third area of concentration for investment management should be on developing a core and satellite strategy. The core investments you have typically are stocks and bonds. Here you will concentrate on using more cost effective investment vehicles such as index funds or exchange traded funds. We believe that in the core section of managing your investments passive strategies provide more long-term value than active investment management.

Satellite investment strategies will include those stock sectors where active management can add value. In addition, we believe the satellite sector of your investments should include alternative investments that are designed to provide regular returns no matter what happens in the broad market.

The goal of a core - satellite investment strategy is to provide you with returns that have lower than average volatility.

#### **Understand the movement to passive income**

The fourth part of an investment strategy for owners of private business is to understand that you will now be moving from an active income situation where you got a paycheck from your business to one where a major portion of your income will now come from the returns your investments provide. We often suggest that business owners have some active income in the

portfolio. This active income often comes from the investment real estate from which you run your business. You may decide to sell your business for many reasons. We often suggest that you keep ownership of the real estate you owned while running the business. Often the income from this real estate becomes important in meeting cash flow needs after you sell your business.

Choosing an investment advisor also includes trust. We suggest that you ask yourself if the person you've chosen is someone you feel comfortable trusting with your financial future. Often the decisions you and your advisor make will have a meaningful impact-either positive or negative-on your financial future.

We at Stage 2 Planning are happy to provide you with a free initial consultation to discuss your investment management needs. We will provide you with an in depth discussion of not only the wealth management process, but how your investment management fits in with the entire picture. Managing investments is an important part of the wealth management process. Integrating investment management with your entire wealth management picture gives you a more complete picture and action plan for what's appropriate for you and your family.

With warm regards,

### **Stage 2 Planning Partners**

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