Tuesday, October 04, 2016

This quarter I'd like to review with you the foundations of our investment management philosophy and then show you how it is reflected in our portfolio models and your accounts with us.

The purpose of saving and investing is to transfer purchasing power from the present to the future. Once you have decided to transfer your purchasing power from the present to the future, the next question is: **Where should you store that purchasing power?** Logically, you want to store it some place SAFE. So … what kinds of risks threaten the safety of your investments? There are two major categories of risk that you must deal with in all of your savings and investments:

PRINCIPAL RISK
The risk that your "principal" will be lost or reduced in amount, *when you need it.*

INFLATION RISK
The risk that although the principal is not lost, its purchasing power is eroded.

The tricky part is that protecting yourself from just one risk tends to leave you more exposed to the other. So the idea is to understand which of your investments, in what amounts, need to be protected more from one risk than the other.

AVOID PRINCIPAL RISK THROUGH "DEBT" INVESTMENTS
A Debt investment is one where YOU are LENDING MONEY for a time to those who are to pay you back. You get your principal back, and the interest on that principal. Very short term (when you may request payback in days or months) debt instruments such as insured savings accounts; US treasury bills; money market accounts provide excellent protection against principal loss, because they are short term and very credit worthy.

BUT: When you ultimately get your principal back from these institutions, will it purchase just as much in goods and services as when you lent it? **It will, if INFLATION is zero or negative.** Meaning, that prices when the principal was lent are similar to prices, *for the things you need to purchase*, when the principal is paid back.

It will NOT, if inflation is traditionally **positive** or high. How do we protect ourselves against the risk of high INFLATION?

AVOID INFLATION RISK THROUGH "EQUITY" INVESTMENTS
To make an EQUITY investment, you spend your "money", to buy tangible or real assets. Typically, things to which you will receive a "title" or "shares". You buy a company, business, your home or other real estate, etc., and now own it regardless of its future price. You assume more risk (nobody has promised to pay you back!), for which you expect a higher potential return on your investment. Or, as with your home, you may stay in it even if could no longer afford to buy it, and do so without paying rent, or interest.

IT IS IMPOSSIBLE TO AVOID ALL RISKS

Since you cannot avoid all risks, you must choose investments based upon their ability to accomplish specific objectives, and which avoid the risks pertinent to that objective. We keep in mind which risk you are avoiding with each type of investment.

Avoid Principal Risk When:	Avoid Inflation Risk When
• the cash may be needed soon • the funds have a specific important job to do	• you already have enough cash invested to take care of short term, emergency and opportunity needs • the purpose of the investment will require purchasing power in the future
Or if you have allocated the funds for: • important specific needs within five years • college education within five years • retirement income needed soon • emergency/opportunity fund	**Or if you have allocated the funds for:** • objectives beyond five years • college education fund beyond five years • retirement objectives far into the future • more flexible needs farther out into the future
By Storing Assets in Debt Investments: • Insured Savings Accounts • Certificates of Deposit • Money Market Accounts (Taxable) • Money Market Accounts. (Nontaxable) • US Treasury Bills • Insurance Cash Values • High Grade Corporate Bonds	**By Storing Assets in Equity Investments** • Common Stocks • Business Interests • Real Estate • Hard Assets • Investments which appreciate in value as a direct result of inflation

There are other forms of RISK to consider in choosing investment vehicles.
Consider these risks when evaluating investments.

INTEREST RATE RISK: Changes in general interest rates can change the market value of your assets up or down. Rates up? Values down, and vice versa.

INCOME INTERRUPTION RISK: Income, such as rent payments or dividends, or interest, may not be paid.

LIQUIDITY RISK: An asset that must be turned into cash quickly may lose value or have a cost to access such as a surrender charge, redemption fee or "lock-up" period with "penalties" for withdrawal or "liquidation".

MANAGEMENT RISK: The investment may require more attention and management by you or others, than you have the ability or wherewithal to provide or afford.

TAX RISK: Uncle Sam may disallow certain tax benefits on your investments or disagree with your interpretation of the rules, resulting in losses to you.

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FRAUD RISK: There always will be unscrupulous swindlers in the marketplace peddling "sure things" that turn out to be nothings.

Does it sound as if you just can't be sure that any particular investment is the right one? You're right ... you cannot. As a result, we recommend diversified investment strategies within a broad range of financial assets while maintaining a strong base of Emergency / Opportunity funds. **In summary:**

We Employ:
SHORT-TERM DEBT-TYPE Investments as appropriate vehicles for near-term important financial goals. **EQUITY-TYPE investments:** Appropriate vehicles for longer-term or non-imperative financial goals.

Using:
DIVERSIFICATION: within your investment portfolio to reduce portfolio principal risk.

BALANCE: in your portfolio to help it to respond positively to a varying economic environments.

TIMING: in making investments and selling assets is extremely important: Dollar cost averaging, when investing large new investment amounts in Equity investments,

TACTICS: to provide a Dynamic element to our portfolio models, accessing multiple, alternative trading or dynamic asset allocation strategies via outside managers to further add to the effects of Diversification, Balance, Timing.

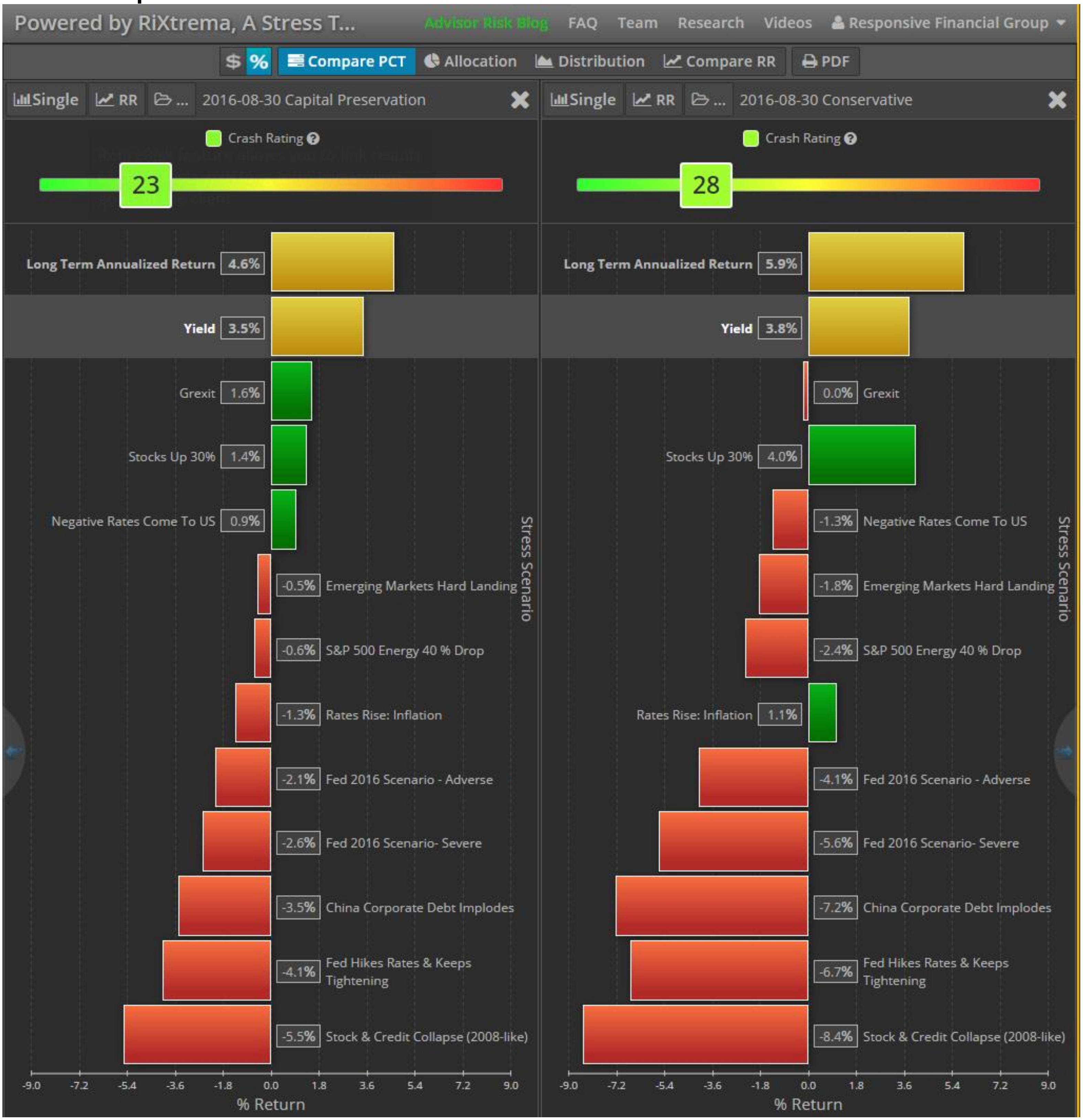
Following the letter, I have provided just some of the analytics we look at in attempting to understand the risk and return characteristics of our portfolio models. It is a comparison of what everything I have discussed above, boils down to in the form of average risk, expected return, yield, and performance expectations for several specific “stress” scenarios for each of our Institutional Risk Adjusted Portfolio models. For example, how might each model perform if a 2008 like event with stocks down 40% were to happen again? You will notice the gradual increase in average risk, expected return and increased sensitivity to stress events that portfolios demonstrate. Risk and return do still go hand in hand.

We hope you have a great fall, and have been enjoying our weekly updates and communications to you. We are happy to review with you the risk and return expectations of you own portfolios, and to help you understand your preference for the best balance of risk and return for you, or for your friends or associates whose advisors don’t provide such resources.

Sincerely,

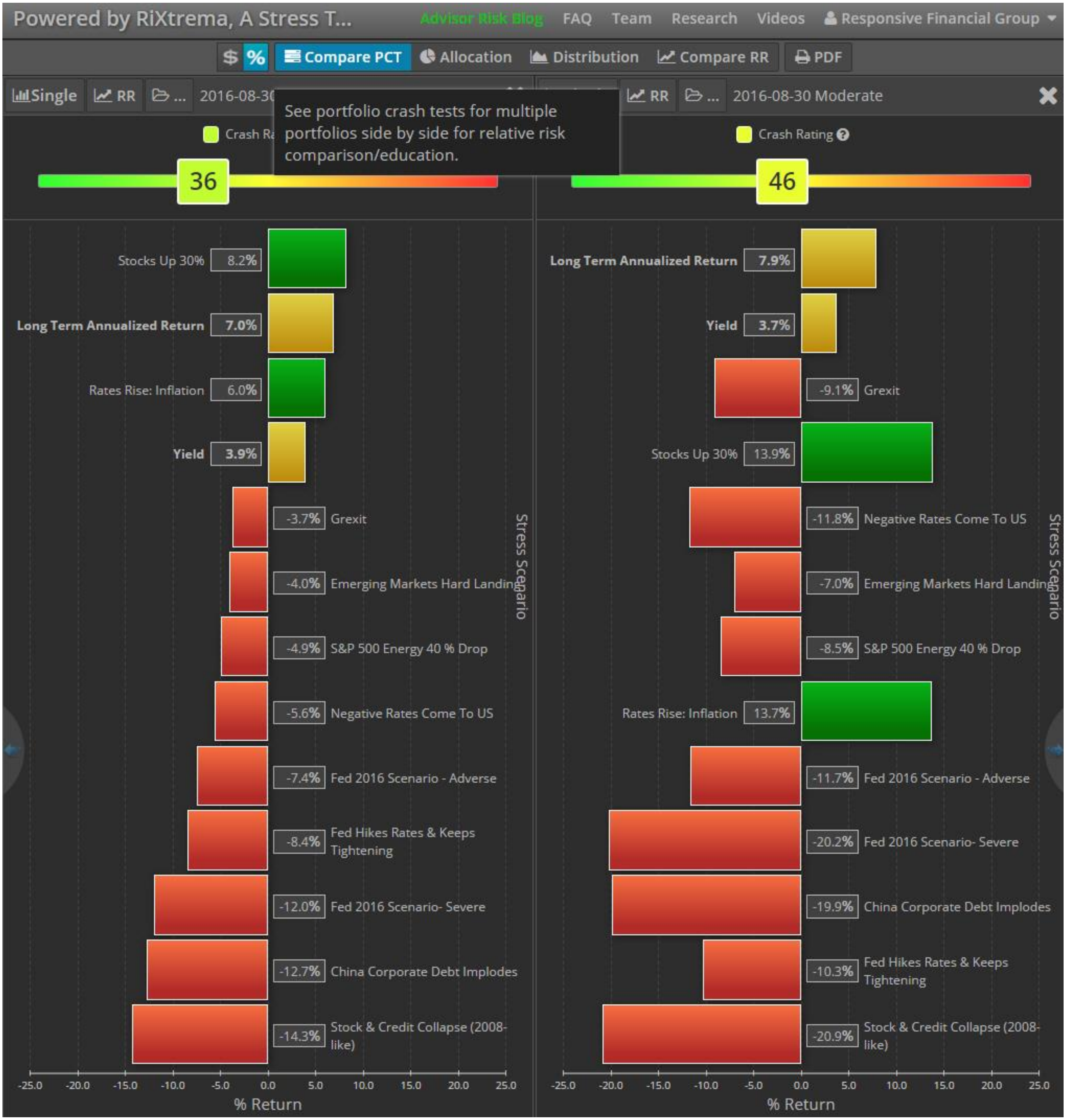
Benjamin G. Baldwin III, CFP®, ChFC, CeFT™
President

Capital Preservation RAP | **Conservative RAP**



The Risk, Return, and Yield information presented here are the result of hypothetical calculations and assumptions believed to be reasonable. They are NOT ACTUAL RESULTS. We use them to understand the risk and return characteristics of our models relative to each other. THEY ARE NOT PREDICITIVE OF FUTURE RESULTS.

Balanced RAP **Moderate RAP**



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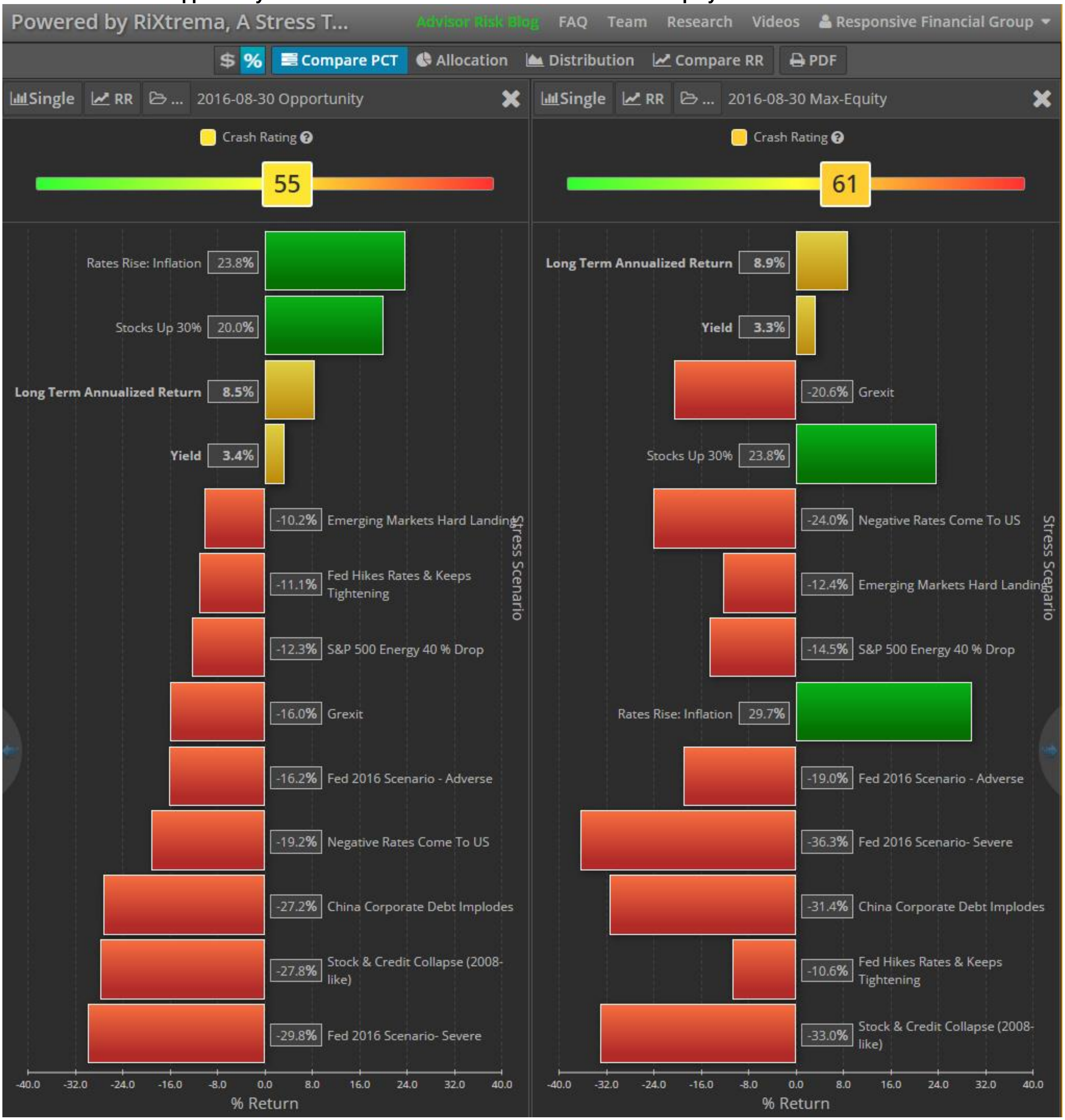
Opportunity RAP **Max-Equity RAP**



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