Dorchester Advisors
Money worked harder

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Things You Control

Streamlined Portfolios

Bloatware is normally associated with software. Bloated software tends to work slower and has more complexity than most users want or need. And, this can also happen with investment portfolios. In an earlier note, we talked about de-cluttering financial files and records to gain better clarity. This thinking also applies to effective Portfolios.

But, why do portfolios get bloated in the first place?

First, the number of Buy ideas far surpasses Sell ideas. Media and the Investment industry continuously engineer new investment ideas to deal with current events. This is very good for their business' revenues. BUT, they rarely talk about sell decisions for these ideas. However, keeping investments that have stopped working, or are no longer relevant is buy and ignore – not a good investment strategy.

Second, selling an investment is a decision and people don't like to make decisions. If the investment is doing well, we rationalize it will continue to do so and must he held. If doing poorly, we rationalize that it will recover. What we rarely do is to evaluate new ideas and fund them from investments that are not working out. Hence many portfolios are stuffed with both stars and duds; with flowers and weeds.

Third, we rarely have the tools and the expertise to do a portfolio x-ray to weed out funds that duplicate holdings. Our view at Dorchester is that funds / ETF's / Hedge funds / PE are not investments; they are containers for investments. And just like TSA agents at airports – who are less interested in the carry-on bags but more interested in what is inside those bags, we believe investors should x-ray their portfolios. For example an S&P 500 fund consists of about 500 stocks, and how it performs depends on how the 500 stocks perform. Now a portfolio may also have a growth style mutual fund (for example) purchased as a result of a persuasive advertisement. It too may hold several hundred stocks, and many could duplicate what is held in the S&P 500 fund. Nothing wrong with this per se, but being unaware of the duplication is not a good practice: unnecessary duplication means more expenses were incurred in buying the same securities, there were timing differences when these were bought or sold etc.

Streamlining portfolios is an important task that needs knowledge, tools and discipline to execute. But effort put into this does result in simpler, elegant portfolios which we think tend to have lower expenses and better expectations of performance.

A rough paraphrasing of Einstein's thought makes sense in managing portfolios: Make everything as simple as possible, but no simpler. Informed simplicity is sophistication at its best.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Past performance is not a guide to future performance.

DorchesterAdvisors is a Registered Investment Advisor in NJ, NY and MI.

Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to consuming your money after you retire as you do to accumulating it before you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.