Dorchester Advisors

Money worked harder

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Things You Control

Streamlined Portfolios

Over the years, our investment portfolios can become needlessly complicated. But, they need not be - we believe that streamlined portfolios can be highly effective. And, there is little evidence to show that complicated portfolios perform consistently better than a streamlined portfolio.

Streamlined portfolios have fewer “moving parts” which also allows investors to:

- See the forest from the trees – Streamlined portfolios let you see your asset allocation, cash flows etc. more clearly and holistically.
- Take action faster – re-allocating few accounts is easier than re-allocating many.
- Improve tax planning - taxes are easier to plan for and easier to do.
- Improve retirement income planning – it’s easier to take a holistic view and act on it. Imagine coordinating RMDs across several accounts with different providers.
- Be better prepared for estate planning – your spouse or your heirs have fewer items to understand, oversee, and act on, if you are incapacitated.

A rough paraphrasing of Einstein’s thought makes sense for your investments: Make everything as simple as possible, but no simpler. Informed simplicity is sophistication at its best.

But, why do portfolios get complicated 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. So keeping investments that have stopped working, or are no longer relevant, is to 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 because of a persuasive advertisement. It too may hold several hundred stocks, and many could duplicate those held in the S&P 500 fund. Nothing wrong with this per se, but being unaware of the duplication is not a good practice:

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.

Why Things You Control are Important

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

When we hope or worry, we tend to look at the future and focus 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. 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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Founder and Investment Advisor

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 accumulating money before you retire as you do to consuming it after 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.