Copley Investment Management's Investment Process

This article describes the decision-making process at Copley Investment Management (CIM). CIM advisers adhere to a strict professional code of conduct that places the needs of our clients above our own individual interests. This fiduciary responsibility is important because a financial adviser is in a position to sell products that generate high commissions that may not be in a client's best interest. In our fee-based model we do not accept commissions, which assures our clients they are receiving objective advice void of conflicts of interest and completely transparent. Our model is also easy to understand.

CIM stands between the client and the market with the goal of constructing a portfolio of financial securities that meets the client's investment objective. We employ no sales gimmicks. Instead of focusing on marketing, we focus on understanding each client's risk tolerance in order to construct an efficient portfolio--one that achieves the highest return for a given level of risk. Comprehending the client's risk tolerance requires us to understand what the client wants to achieve and the myriad factors affecting that goal. We use a questionnaire and personal conversations to assess how much risk each client should assume. Once done, we carefully select a diversified mix of securities designed to accomplish the client's objective.

Cost minimization is the highest priority. CIM firmly believes the client's best interest is served by keeping the cost of investing as low as possible. Another distinguishing feature of our approach is that no two client portfolios are the same because no two clients are the same. Each client represents a unique set of professional experiences and family circumstances accumulated over a lifetime.

Each CIM adviser has a depth of knowledge about how to evaluate the various types of securities offered in the market. While we cannot guarantee our process works all the time and under all conditions, we can guarantee it is professionally constructed and that it works over time. The client tells us what he/she wants to accomplish, and we get to work to make it happen.

Many advisers are actually "salespeople" who outsource investment decisions to money managers in a far-off money-center city. Outsourcing separates the client from the decision maker and adds yet another layer of fees. We do not outsource investment decisions. We make all decisions in-house.

Once we construct the client's portfolio, we formally review it quarterly. To do so more often would risk reacting to fickle market forces. While quick trading can be tempting, it is usually disastrous. We conduct the review using a top-down approach keeping the client's risk tolerance clearly in mind.

The review process begins with CIM advisers brainstorming on a few key macro themes such as the overall economic outlook for both the US and international economies. After that, we carefully examine every security in each client's portfolio to determine which securities to hold and which ones to sell. Sometimes, the review results in a decision to leave things alone. Taking no action when the market appears to demand action takes a high degree of discipline.

The macro view gives us strategic direction. For example, if the client's risk tolerance is conservative, we rebalance the portfolio with a tilt toward defensive assets such as US Treasuries and blue-chip dividend paying equities. For a riskier objective, we rebalance by tilting the portfolio toward growth assets spread across geographic regions (North America, Europe, Asia, and Latin America) and market capitalization size (large-cap, mid-cap, and small-cap).

We employ Exchange Traded Funds (ETFs). ETFs are considerably more cost-efficient and performance efficient than actively managed mutual funds. If risk allows, we complement a collection of ETFs with individual securities and closed-end investment companies.

CIM's review process depends more on the client's risk tolerance, which we can control, than on the market, which we cannot control. Many amateur investors get this equation backward by incorrectly focusing on the market. Risk drives return, not the other way round.

CIM's model is based on the strong belief that market timing is an ill-advised strategy. Some advisors camouflage a timing strategy by calling it "being proactive". The idea that an adviser can correctly gauge the right time to buy and sell is a myth. The inability to correctly time the market is why actively managed mutual funds consistently underperform market benchmarks. Market timers claim to be clairvoyant. This is impossible. Crosscurrents from a vast amount of information continually flooding the market makes market timing analogous to shooting at a moving target in the dark.

Moreover, a timing strategy allows emotion to enter into the investment-decision making process. Several of our clients are quite savvy but prefer that we invest their money because they understand emotions can undermine sound decisions. Any advisor who sells market timing places his/her own best interest for generating commissions above the client's best interests. Even if a timing strategy were, by chance, to work occasionally, it cannot work over a long period of time. Even a broken clock is right twice a day. Empirical studies strongly support this conclusion. Here is a riddle that unmistakably drives home this point.

RIDDLE--true story!

This gentleman had possibly the worst luck in history. He made a total of 4 large stock purchases between 1973 and 2007. He bought in 1973 just before a 48% decline in the DJIA. He bought again in 1987 right before a 34% decline, again in 2000 before the dot com crash, and finally

again before the 2007 crash. Despite these 4 individual purchases that totaled $200,000, he ended up with a $980,000 profit for a 9% annualized return. How did this happen?

Answer: He never sold,,,,

I hope this overview of CIM's decision-making process builds a solid standard for what every investor should expect from their financial adviser. Although the model presented here is unique to CIM, the fundamental principles upon which it is built is best practice in the financial advisory industry.

Ron Copley

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