COPLEY INVESTMENT MANAGEMENT
Independent Financial Consulting

The Copley Investment Management (CIM) Model for Investing Your Funds

In this essay, I want to explain the CIM model for how Justin and I manage your money. It's an easy explanation because the model is straightforward.

Hold up your two fists in front of your face about 2 feet apart. Your left fist represents you, the client, and the right one represents the market. Now imagine Justin and I standing between your two fists. Our job is to invest your funds in a portfolio of carefully selected financial securities that meet your specific objectives. We have many years of training and experience in creating these types of risk-adjusted portfolios. Although the model is straightforward, it is unique in that it reflects our professional judgments regarding the risk/return tradeoff present in the marketplace. Let me explain this important principal.

The CIM model is based on sound financial principles developed from a deep study of the risk/return relationship. While we understand this relationship may be misaligned at any point in time in ways that are extremely difficult to understand due to the confluence of crosswinds, we firmly believe it holds true over longer periods of time. A fundamental principal of our model is that the only way to achieve a higher return is to take greater risk.

Given the average return in the stock market over the past 100 years has been approximately 10 percent, striving to generate a 20% return with low risk is not possible. To achieve a 20% return, we would have to take significant risks with the portfolio, which does not mean we would achieve the goal. It could result in low or even negative returns that most investors could not tolerate. We would not agree to such a high-risk strategy unless we absolutely knew the client had a very long-time horizon and the internal fortitude to withstand a high degree of market volatility. That type of client is rare.

Because the market is an external factor over which no individual has control, Justin and I focus attention instead on your risk tolerance, an internal factor over which you have some control. The idea is to accept returns the markets provide for a given level or risk. We do not chase returns. The emphasis is on risk, not returns. Trying to accurately gauge the best time to buy and sell an investment is a strategy based on returns, not risk. A misunderstanding of the risk/return relationship is a common mistake amateur investors often make. Returns come from risk, not the other way round.

The risk/return relationship to which Justin and I adhere is based on the firm belief that capital markets efficiently price financial securities. Empirical studies in the academic field strongly support this belief in market efficiency, which is a fancy way of saying that the price you see at any moment of time represents the true intrinsic value of the security trading in the open market. The price is neither too high nor too low; it is accurate because it reflects the laws of supply and demand as exhibited by the collective view of all investors participating in the market at that moment.

Security prices change as fresh information randomly arrives to the market from a variety of sources. Headline news coming from global and domestic sources creates price volatility as the financial markets absorb the plethora of new and often conflicting information. Different people representing different interests can read the same news through different colored lenses to arrive at quite different conclusions as to how the news impacts security prices.

A complicating factor for how the market pricing mechanism works is that some investors attempt to form expectations of new information even before the new information arrives. This logic is difficult to follow but it is present in the markets. Such a strategy is nothing short of speculative guesswork and is entirely too risky for our clients. Amateur investors who play such a guessing game should do so with funds they can afford to lose; and chances are they will.

Constructing efficient portfolios that coordinate your unique needs with carefully selected financial securities available in the market is a technique we have employed for years and one we are committed to rigorously following in the future. Our disciplined approach has performed well in the past and we have confidence it will generate returns consistent with your level of risk going forward. I hope this essay provides you a better understanding of how we operate. As always, we welcome your comments.

Below is an interesting article on the rigor of the CFA exam from the New York Times. I can attest first-hand as to how extremely tough that exam truly is. I include this article as the CFA designation has provided Justin and me with the knowledge and training we use in managing your money. REC

https://www.nytimes.com/2021/09/30/business/cfa-test-fail-pass.html?smid=em-share