



OUR BELIEF SYSTEM

Obviously funding and managing one's personal investment account, 401-k, or an endowment or foundation is one of the most important and difficult challenges that we face today. The truth is that it's nearly impossible for any busy individual to devote the necessary time to properly stay on top of their investments and the markets that affect them. Should we therefore thank the investment industry that sells us their products for providing us with their long-term buy-n-hold strategy? Their mantra that all we need do is "buy good quality, diversify, and hold for the long-term," has become the most popular belief system used by investors and fiduciaries today. Truly, what we are really investing in is **our beliefs** about securities and the market.

Anyone interested in following our investment models should be fully informed about the **beliefs** upon which the models are constructed. Foremost in **our beliefs** is that losing large is more **damaging** than winning large is **beneficial**. After all, growing \$100 to \$150 would feel very rewarding providing a 50% return. However, a 50% loss would require a 100% gain to get back to \$100 and a 200% gain to reach that \$150 mark. Historically, this "repair-type" loss-strategy could take countless years to work-out.

We are certain that we have no ability to foresee the future; nor do we believe others can either. This leads us to our belief that we are never assured that our investment decisions will turn out positive. We use a well reasoned position size, structured with a managed risk, designed to make sure we aren't eviscerated when an investment goes wrong. It is imperative that we not be so arrogant that we hang on to prove that we are always right. We are willing to accept small losses; forgoing the false hope of the long-term to bail us out.

This leads to **our belief** in letting our profits run and cutting our losses short. We're not at all interested in day trading. If we catch a trend, we ride it out; but use the price vacillations as opportunities to adjust our exit points. This keeps us from giving back all of our profits derived over time. We don't try to catch the bottom or escape at the top of a market move. We are patient and wait for sensible signals on the markets AND individual investments.

We believe in diversifying our investments but not simply using diversification as our only risk defense. That's just not enough! If everything is breaking down, we don't subscribe to celebrating doing better than the worst performer. When everything else is collapsing, the most dependable non-correlated asset is **cash**; which will at least give you a return **of** your money. Our signals pushed us to start going to cash in December 2007.

This brings us finally to **our belief** that past performance is certainly not a guarantee of future returns. We recognize that the markets are constantly adjusting. Regulators and government agencies impose manipulations on the supply/demand freedoms of the market creating a crony-type capital market system. The disruptions to the fundamentals of the market leave only a skewed vision from which to operate; as does the lack of confidence in the accuracy of corporate financial statements. As always we proceed cautiously, and adjust to what is happening now. It's your money, and we believe that you should do likewise. – END