# Investing With Us

Our philosophy is rooted in our beliefs. We believe it is our duty to have a solid understanding of our clients. They come to us with pre-determined biases, concerns, goals, needs, dreams and financial tendencies. Some of these will change over time and some will not. As a result, we are vigilant in our responsibility to explore who are clients are and what they aim to achieve. Using our three –pronged approach: **Explore, Execute, Educate**, we carefully calibrate client data with current market conditions, economic indicators and other external factors, to create a well orchestrated plan consistent with client goals and risk tolerance level.

Our investing style is grounded in core tenets that support our overall philosophy :

**Diversification & Asset Allocation Are Crucial**

Diversification is the process of spreading a portfolio over many asset classes and subclasses to minimize or avoid excessive exposure to any one source of risk. It occurs within and among asset categories or classes. When one asset class or category is underperforming, other classes or categories may be doing extremely well. Bonds strive to decrease volatility, manage risk n a portfolio and provide income streams, while stocks can grow your money over the long-term and help battle inflation. The broad asset classes generally used in building portfolios include:

Cash and money market instruments

Domestic fixed income securities (typically bonds)

Foreign fixed income securities

Domestic equities (typically stocks)

Foreign equities

Real estate and tangible assets

Asset Allocation is the process of dividing a portfolio among different classes of investments, and then taking it a step further and selecting sub-categories for each asset class chosen. Main Street Advisors will scrutinize the advantages and disadvantages of each, and how they will work together in achieving long-term investment performance.

WORDS OF WISDOM

SUPPORTING OUR BELIEFS

**“An investment in knowledge pays the best interest”**

**- Benjamin Franklin**

**“Never test the depth of the river with both of your feet.”**

**- Warren Buffet**

**Some ways in which the broad asset categories are distinguished:**

| | |
|---|---|
| **Cash and Money Market** | **Taxable or tax-free** |
| **Bonds, Domestic/Foreign** | **Taxable or tax-free** |
| | **Maturity: Short-term, intermediate, long-term**<br>**Credit quality: Government/ agency, investment grade, high-yield**<br>**Geography: U.S., developed foreign markets, emerging markets** |
| **Stocks, Domestic/Foreign** | **Capitalization: Large, mid-size, small companies** |
| | **Geography: U.S., developed foreign markets, emerging markets**<br>**Type of stock: Value or growth** |
| **Real Estate** | **Geography: U.S., developed foreign markets, emerging markets**<br>**Type of property: Industrial, office, residential, retail** |

## Market Timing: When It Works and When It Doesn't

Timing the market in an attempt to avoid market declines and benefit from market advances is a great concept, how ever studies have proven this to be a futile strategy. These studies have illustrated the difficulty in overcoming the tax burden and transaction costs of frequent trading and the requirement that timing be perfect with respect to exiting and re-entry of the market. They also found that perfect market timing scenarios do not provide significantly better results than the buy-and-hold approach.

An area of market timing we do have more control over is the choice of whether to invest a large amount all at once or to gradually invest over a longer period. With **periodic investing** the primary goals are to make investing as automatic as possible, limiting second guessing, and making short-term fluctuations in market prices irrelevant. The most common approach to investing over an extended period of time is **"dollar cost averaging" (DCA),** whereby equal investments are made at regular intervals. Investing the entire amount immediately is referred to as **lump-sum investing**. This strategy is particularly beneficial when the time horizon for the investment is sufficiently long. Main Street Advisors will work with you to determine the best strategy to align with your goals.

Once fully invested, the asset allocation changes with the variation in performance of the various investment markets. It is at this point that the portfolio will need to be rebalanced. There are different rebalancing strategies available. **Periodic rebalancing** reviews the portfolio at pre-determined times, decisions are made about which assets to sell and where to reinvest. **Tolerance rebalancing** uses a range or tolerance for each asset class. When an asset class exceeds the upper or lower limit of the established range, it would be rebalanced. **Cash Flow Limited rebalancing** moves funds either from asset classes that are performing well to ones that are underperforming, or from classes that are stable to ones that are doing poorly.

## "Roll with it Baby" OR "Shake it Up" - Active vs. Passive Management

**Active Management**: When managers strive to identify mis-priced or investments offering greater growth potential. With this strategy trading tends to be frequent, and the desire to reduce risk, greater. On a risk-adjusted basis, the case for active management is stronger. If this strategy is chosen, the next decision is whether to adhere to a buy and hold strategy or actively trade the portfolio.

**Passive Management**: Strategy of holding every security in a predefined market, with each represented in exactly the same proportions as in the market.

In determining which strategy suits the client best, Main Street Advisors will consider a host of factors such as portfolio turnover and taxes, volatility, liquidity and transaction costs, income, and capital gains.