



NOT JUST A NUMBERS-BASED INDUSTRY

The investment industry and investments in general are obviously a numbers-based business. Investments are assets that are purchased and sold. They are measured in percentages gained and in dollars earned. When aggregated together a group of stocks, bonds and real estate properties make a portfolio. They too are measured against goals of earning income and the prospect of future gains. Every day, stock and bond prices move and trade, they move higher or lower and portfolio values rise and fall. It's all very quantitative and numbers-centric. But even more than being a numbers-based industry, investing is really about people.

Investing is an activity, whereby the investor purchases the securities of an entity. Whether the asset is common stock, preferred stock, corporate or municipal bonds, mutual funds or exchange-traded funds or money market accounts, the investor is placing his money into the hands of other people.

Purchase shares of Apple (AAPL) and the investor becomes an owner of cutting edge technology and cool products and devices. But for the investment to become profitable, it is really a bet on the people who work at Apple and who think up the new gadgets and technologies. Without Apple's innovators and management team and Board of Directors, the company would soon be passed by competitors, products would become outdated and the company would slowly fade away. The stock price would follow and the investment would lose money.

Investing in mutual funds, exchange-traded funds and money market funds are less about investing into a strategy and more about placing money with the managers of those funds. It is very easy to look at a mutual fund's track record and invest based on its performance numbers, but a mutual fund is an entity managed by a person or group of people who are placing investor money into securities. If the fund changes managers, the past track record is of far less use in determining how a new manager might invest those same assets.

Recently, the founder and key portfolio manager of PIMCo Funds left the company he created and joined a competitor. Billions of dollars flowed out of PIMCo following the announcement. The PIMCo brand is known worldwide. At one point, their founder Bill Gross was known as the Bond King for his excellent and long-standing track record. He grew PIMCo's flagship fund until it became the biggest bond fund in the world. And then in August he left. Last year the firm's Chief Investment Officer and members of PIMCo's Board had a very vocal and public fight. The CIO left the firm and PIMCo became a little less about bond performance and little more about whether the fund management was stable. This example brings something very important to light. Any investment vehicle must be treated like an individual security when looking at the corporate organization and the management inside the company. If the corporate entity is over-leveraged or if management turnover is high, there should be some caution before investing. In the case of PIMCo, the CIO departure was the first warning sign of something wrong within the organization. The fund may not have direct performance issues related to a CIO leaving, but the investment committee could be weakened or investors may choose to sell their interests.

A mutual fund structure can be described simply by looking at the two words “mutual” and “fund”. Mutual meaning that it is open to all investors and that a group of investors are collectively pooling their interests into a single entity. That pooled entity is called a fund. Again, people are very important. If a block of large investors suddenly leave a fund, the manager must sell securities to make cash available, which could result in the fund having to sell off valuable investments and could result in poor performance.

Some investments are government obligations and can be effected by the decisions of politicians. Real estate is impacted by neighbors and schools and actions of people that can include negative factors like crime and positive factors like community services.

Investing is very much about people. The results are measured in numbers, but day-to-day activities that generate good or bad results are directly correlated to the actions of people.

THE REAL REASON FOR THE INVESTMENT PORTFOLIO

A portfolio is a group of investments, built to earn income and appreciate in value. The portfolio has goals, usually to earn a specific rate of return over time. Often times, the stated goal is to generate a certain or specific level of income. But those goals, those quantifiable objectives, are really just a tangible measuring stick for the real purpose of a portfolio.

A portfolio of investments exists to satisfy qualitative goals of the investor. It is about quality of life, about travel and food and philanthropy. Very few investors put their money at risk simply to satisfy their desire to have more. Investors don't often pile up their money and sit it in the living room. It is not about how big a pile the money can make, it is about what income and positive returns can do in their daily lives. It's about fulfilling aspirations and helping others and about leisure and enjoyment. Everyone has their own reasons, and those reasons are most often about life and the people who own the portfolio.

When we are reviewing a portfolio, or updating a financial plan, and when we are creating an investment mandate, it is to customize a group of securities that seek to satisfy qualitative lifestyle goals. To be sure, we use return goals to quantify progress and to assess relative returns, but we never lose sight of the **REAL** reasons for the portfolio.

Portfolios have a lot of numbers, columns and data, but they exist for people and represent lives and aspirations. At every level, investing is about people. From the Boards of Directors of major corporations to employees and politicians, managers and other investors, all play a role in the outcome of investments. But most importantly, it is about the investor, the owner of the portfolio.

Investing is about having a plan to leverage savings for the purpose of satisfying life's ambitions. And when times get tough, as they always do in investing, it helps to have people you can trust, have confidence in, and who are familiar. All bring about a sense of peace and satisfaction when the volatility cycles higher and markets become choppy.

VAN HULZEN ASSET MANAGEMENT

Investment Committee

4370 Town Center Blvd Suite 220, El Dorado Hills, CA 95762
Tel: (916) 608-4284 | Fax: (916) 608-4296
www.vaminvest.com