

Noto Financial Planning Investment Philosophy

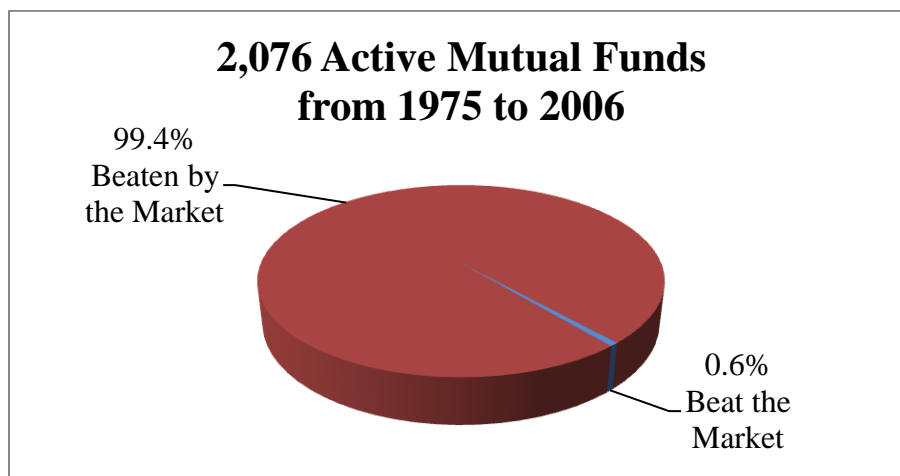
Active management is when an investor relies on analytical research, company visits, charting, computer programs, their own judgment and/or experience in making decisions on when to buy, hold and sell specific investments. Active funds are set up with the purpose of beating a benchmark index, for example the S&P 500.

There are index funds covering large companies, small companies, international stocks, emerging markets, high quality bonds, real estate, and so on. Some active management funds and advisors beat their benchmark index over short periods; however, academic and empirical research have shown that the overwhelming majority of people fail at beating their benchmark index over the long run. Wherever the active investor thinks he or she has an edge, be it through market timing or stock picking, they have not been able to demonstrate it for long.

Index funds outperform because they are more tax efficient, cut down on fund management risks, and carry lower costs. Based on your goals and objectives, I recommend a mix of different index funds to suit your needs – known as a strategic asset allocation. I do not recommend a passive ‘buy it and forget it’ strategy - we rebalance your portfolio over time, while keeping an eye on taxes. Changes to your strategic asset allocation are not based on anyone’s crystal ball readings.

The major reason that people continue trying to beat the market is because large brokerage houses, banks, and mutual fund companies all have a financial vested interest in selling active management – because it sounds more appealing and it allows them to charge you more. Collectively, these groups spend billions of dollars per year marketing the notion that they can help you beat the market. Their advertising supports financial magazines, TV shows, and radio shows - media companies that also earn great profits getting you excited about making a fortune by 'outsmarting' the market.

On the other side of the argument are maverick industry professionals, economists, researchers, and professors - including Nobel Prize winners. None of these people have billions at stake to try and convince you of the validity of their findings, hence few consumers read about their findings. Make no mistake though, the historical evidence is strikingly clear...



Source: Mark Hulbert, The New York Times, “The Prescient are Few,” July 13, 2008