

## TFP's Investment Philosophy

“The important thing about an investment philosophy is that you have one.”

- David Booth

The purpose of a client's investment portfolio is to fund current and/or future financial objectives. The design of the portfolio must take into account the client's financial objectives, tolerance for risk, needs for current income or liquidity, and special considerations such as taxes. The appropriate allocation of investment assets for your goals and risk tolerance is the most important component in developing an investment portfolio.

### Passive/Index Mutual Fund Investing

TFP believes that the single best way for investors to access the investment markets is through index and passively-managed mutual funds.

An index/passive investment strategy is one that seeks to match the investment returns of a specific market benchmark, or index. In an index or passively-managed fund, the investment manager attempts to duplicate the investment performance of the target index by buying and holding all, or a representative sample, of the securities that make up the index. A mutual fund that uses indexing as its investment strategy is called an index fund. Indexing works for both stocks and bonds, and there are indexes and index funds for all segments of the investment market.

The defining characteristic of index funds as opposed to traditional “active” mutual funds is that there is no money manager in charge of the fund making bets on individual stocks, bonds, or sectors of the economy in an attempt to “beat the market”. Indexing is thus considered a “passive” approach to investing.

The basis of passive investment management comes from the theory that investment markets operate efficiently - that information about an investment is freely available to all, and that it is difficult for any one individual to take advantage of special information or a strategy for their own gain. At any time, the value and price for an investment reflects all the information there is about that investment, and that information is freely available to all - through the media, the internet, etc. It is impossible then for all investors together to outperform the overall market – some will do better than average, some will do worse.

Of course, at any one time there will always be actively managed funds that outperform index funds. It may be luck or skill – the problem lies in identifying and selecting these active

managers in advance and doing so over long periods of time. No system has been able to do this. And if no one has a working crystal ball or can predict the future, it makes it very, very difficult for an active manager to consistently outperform a comparable index, after-cost and after taxes through superior timing and security selection.

We thus do not believe in market timing, nor do we try and predict what will do particularly well from one month, quarter or year to the next. We use long-term historical experience as the basis for what to expect in the future.

In our society, there are certain activities, undertaken by professionals and financial consumers, that are usually harmful to a person's financial health. Financial publications, chat rooms and discussion forums, and many television programs promote investment habits which we believe--and which the most respected financial research confirms--are at best unproductive and at worst destructive. We encourage our clients to avoid such media.

We do not recommend individual stocks and bonds or real estate properties as investments.

### **Saving vs. Investing**

Saving is for meeting short-term financial goals, and investing for meeting long-term financial goals. We generally do not recommend investing in equity mutual funds for any goal with a time horizon less than 10 years. For these goals, savings accounts, money market funds, CDs or bond funds are appropriate.

### **Diversification and Investment Style**

Diversification reduces risk. We believe that having a diversified, well-balanced portfolio, following long-term buy-and-hold strategies, and having patience, will increase the likelihood that one will achieve their long-term financial objectives.

Following the academic work of Fama and French, we believe that over time value and small-cap oriented equity portfolios will provide superior returns over growth and large-cap oriented equity portfolios, and so tilt our equity investments in this manner.

### **Investment Education and Working with Clients**

Investors should know how each investment they own fits into their plans and why they own each investment. TFP works with clients to educate and help them understand how and why we recommend what we do.

TFP considers ease of account administration and simplification in making recommendations.

As fiduciaries for our clients, we are bound to put your interests first. We strive to obtain the most appropriate investment vehicles to meet your objectives, while being very conscious of total expenses and risk exposure.

For those clients who choose to self-implement our recommendations, we often suggest clients open accounts with the Vanguard family of mutual funds and consolidate holdings as much as possible there. Vanguard has a great variety of no-load, low-cost, tax-efficient index mutual funds.

For those clients who seek our assistance to implement our recommendations, we work with independent, third-party investment custodian Shareholders Service Group, and Dimensional Fund Advisors, Vanguard and Fidelity mutual funds.