

AAll Silicon Valley Chapter March 2013

Presented by Richard Farkas CMT

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Today's Topics

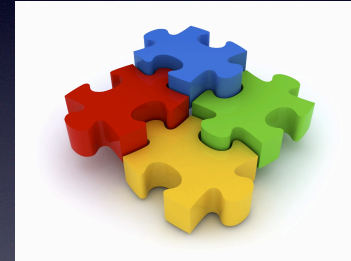
- Investment Policy Statement; (IPS)
 - What is it? Why is it important?
 - We will **back into it** today rather than start with it - hopefully it will be more clear at the end of the session

By the end of today

- Identify the important “BIG ROCK ITEMS” – The WHAT we want / need -Why and How
- The more specific the better
- Identify some gaps in your game plan
- Most you can fix or improve on
- Get clear on what you want to have happen

Investment Policy Statement

- IPS typically is viewed as a risk tolerance range and a guideline for asset allocation.
- The supporting documents include:
 - Outline of personal goals, priorities, and available resources
 - Strategy and implementation procedures
 - Emergency procedures for market events
 - Emergency procedures for personal events

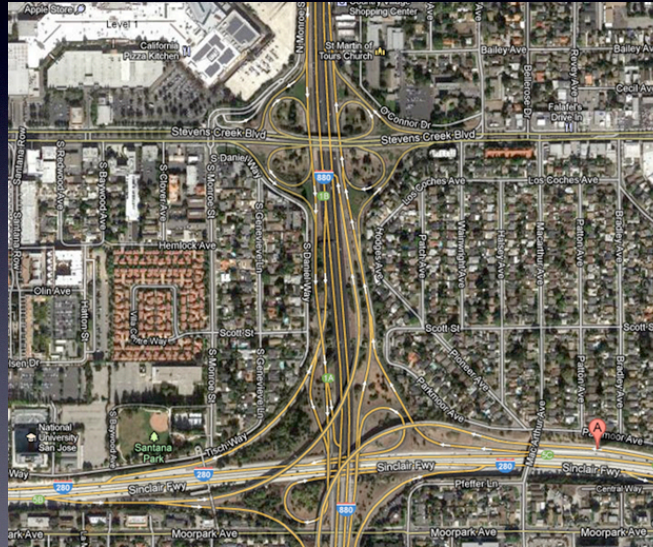


- Think of it as an intersection of Wall Street & Main Street, with several different types of intersections.



280/I7 and Stevens Creek Blvd.

Intersection that has been outgrown



European Roundabout Good Idea?

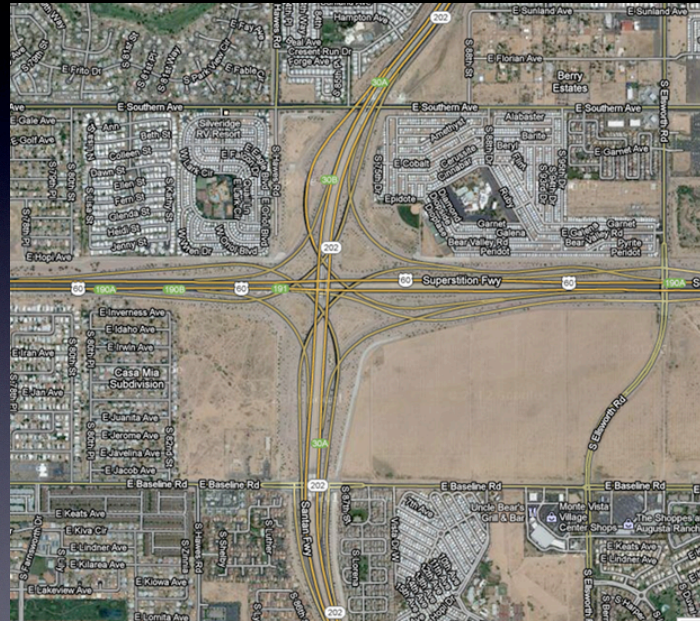


Maybe not? In all situations

Good Idea
Bad
Application



When time and planning are well thought out in advance good things can happen



Let's use the time and space and do a good job of planning.

- Personal Plan – What we want / need from our portfolios
- IPS – THIS IS THE INTERSECTION
- Inventory Selection and Management
- Emergency Plan – Market - Economic
- Emergency Plan – Personal



Personal Plan - I Page Overview

- Who, What, When, Where and Why... eventually we will get to the How



- Exercise - One page Q & A
- Benefits of a One Page Overview
 - ALL PERTINENT PARTS IN ONE SPOT
 - Uninterested Parties can stay with it (spouse)
 - ONE PAGE WE ALL CAN DEAL WITH
 - 20-60 PAGES nobody wants to deal with it
 - Mind Mapping Software
 - VUE Software - Free - others; MindJet and more

What we want & When we Want it

- There are four basic and inevitable phases of one's financial life;
 - 1. Accumulation phase – our working and savings years
 - 2. Distribution – Retirement
 - 3. Death – Final distribution (Estate planning)
 - 4. Concern over long term disability (pervasive through all three) phases but most people focus on that as we approach the “2nd half of life.

- Other “Life Events” along the way that can impact our long term plans;
 - 1. Divorce
 - 2. College Education for our children / grandchildren
 - 3. Weddings of our children (cultural influences)
 - 4. Helping the kids with a down payment
 - 5. Significant Health Event
 - 6. For some Real Estate Crash of 2008-?

Let's spend some time working through this exercise

- WHO WE ARE & WHAT WE THINK
- Individual Investor Personality Profiles
- We all have overlapping tendencies –
- Often based on what motivates us we also tend to have a “dominant type”

Glass Half Full or Empty?



Investing Personality Types

Family Stewards	Independents	Phobics
Anonymous	Moguls	VIPS
Accumulators	Gamblers	Innovators

- WHY - YOU NEED TO HAVE A BIG WHY!
- WHY? - Without one you won't stay the course

My WHY!



- **EMERGENCIES:**
Two TYPES of emergencies
- Personal and Market

- Emergency Checklist
 - JP - MM - Story
- Fill this out put it with Trust Documents
- Review every few years

Personal

- Broken leg – not mission critical – a few days you are out of commission most likely
- Stroke, Heart Attack, Cancer, - longer term issues require advance planning
- Long Term Care issue on your doorstep - YOU OR A LOVED ONE THAT YOU ARE \$\$ RESPONSIBLE FOR
- Death – Death of Spouse – Death of??? Beneficiary

Market

- What did you do – what will you do – anything differently?
- October 1987 –
- 12-31-2000 – Y2K
- March 2000
- September 2001
- Dec 2007



Market - continued

- October / March 2009
- Summer flash crashes of 2010, 2011, and 2012
- March of 2013 – new highs?
- 24 hour news cycle: How will you respond if at all?
- Newsletter advertisements / Economy
- Crisis and Policy Fatigue

Who do you listen to? WHY?



Tactics

- What have we been doing?
- Take a look at your realized Gain / Loss Reports for the past 5 years for Investors - maybe 5 weeks for traders
- Minimum 25-30 closed transactions / during all three market conditions; Bull - Bear - Sideways
- Take at least a full day to do this.
- This exercise is Forensic in nature.
- DO NOT JUDGE - JUST OBSERVE



- Exercise

Tale of Two Stocks



Review

Date	Ticker	Entry	Exist/ Current \$	UNREALIZED Profit	Considerations and Concerns
Jan 1 2009	SPY	90	154	64 / 71%	New Highs
Jan 1 2009	GLD	83	152	69 / 83%	Testing Support

Tale of Two Stocks



Tale of Two Stocks

Date	Ticker	Entry	Exist/ Current \$	UNREALIZED Profit	Considerations and Concerns
Jan 1 2009	RGR	5	56	51 / 1020%	New Highs
Jan 1 2009	AAPL	90	450	360 / 400%	Testing Support

Tactics

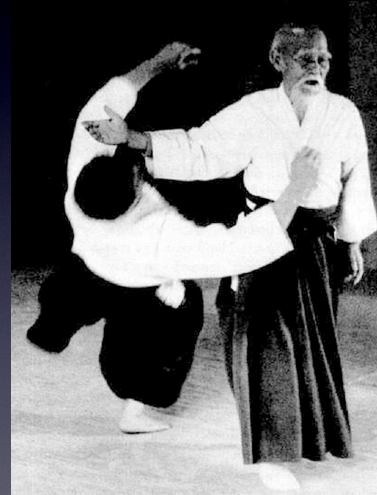
- What have we been doing?
- Take a look at your realized Gain / Loss Reports for the past 5 years for Investors - maybe 5 weeks for traders
- Minimum 25-30 closed transactions / during all three market conditions; Bull - Bear - Sideways
- Avg Gain / Avg Loss; W-L Record
- Take at least a full day to do this.
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- Like it or Not – This is your tactical plan.
 - Is it consistent with what you think is your IPS
- Our goal for studying what we have been doing;
- Reduce Mistakes – Most Important
- Review Results/Allocation/Position Size/Rationale for entry / exit
- Review Tactics – Are these tactics the best way to employ our strategy

How Do you become an expert?

- Martial Arts - Black Belt
 - Start with a chunk of clay
 - Remove everything thats not ____FIRST!
 - Polish whats left
 - Eliminate mistakes & inefficiencies



A word about Mistakes:

- 1. They happen – Our goal is to minimize them
- 2. A Transaction that loses money is not a mistake, if it fits our Strategy and our Tactics are aligned.
- 3. A transaction that is not consistent with our plan or rules is a mistake - profitable or not.
 - NO RULES? NO PLAN?
 - Then everything you do is a mistake.

PUTTING ALL TOGETHER

- The Morningstar PDF
- A place to start – but clearly we need to supplement with our own commentary
- Socially Responsible Issues - ATF-Casinos-BONDS?
- Personal Passion - Medical Research? Ecology? Etc?
- Priorities - Believes and/or Profits

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Q & A???

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