

Investment Fundamentals

EMOTION vs OBJECTIVITY

The consultant adds value by keeping the client objective rather than letting emotion dictate investment decision-making. The consultant's role is to manage both client expectation and emotion. What would happen if objectivity gave way to emotion?

Period	Portfolio Allocation	Rationale	Return(%)/ Market Value(\$)	Portfolio Allocation	Return(%)/ Market Value(\$)		
	Emotion			Objective			
1992	100%G	Growth outperformed previous 3 years (1989-1991) and was the favorite after near 50% return in 1991	4.99	104,991	50%G / 50%V	9.29	109,288
1993	100%G		2.87	108,006	50%G / 50%V	10.47	120,730
1994	100%G		2.62	110,837	50%G / 50%V	0.32	121,120
1995	100% Cash	Surrender to an extended flat market and move to cash (fixed return)	6.09	117,592	50%G / 50%V	37.77	166,861
1996	50%G / 50%V	Recognize superior returns in equities and return to the market	22.38	143,912	50%G / 50%V	22.38	204,209
1997	50%G / 50%V		32.84	191,167	50%G / 50%V	32.84	271,264
1998	75%V / 25%G	Clients comfortable over-weighting value after realizing comparable returns with less volatility	21.40	232,074	50%G / 50%V	27.17	344,960
1999	75%V / 25%G		13.80	264,101	50%G / 50%V	20.25	414,824
2000	100%G	Add tech; add growth; the ship is sailing without me	-22.42	204,879	50%G / 50%V	-7.70	382,864
Annualized Rate of Return			8.4%		16.1%		

Rebalanced annually

Data source: Micropal, Inc.

V = Value Value is represented by the Russell 1000 Value Index

G = Growth Growth is represented by the Russell 1000 Growth Index

Cash is represented by Lehman Brothers 3-month TBill Index

Past performance is no guarantee of future results.

Not FDIC Insured No Bank Guarantee May Lose Value