The IFG Investment Philosophy

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Quite often, when advisory firms state their philosophy, it can sound very generic and investors can be still left wondering just what they might be in for in selecting that advisor. It would seem only fair that prospective clients should know what their potential advisor's philosophy is. And it's been my experience – a little over twenty-three years in independent practice up to now – that investors appreciate the basic qualities of truth, competency, and transparency. So, let's get started:

The IFG Credo

Every client deserves, and has the right to expect, an objective and unbiased advisor who is fully aligned with the client's goals, possesses a moral compass with strict standards of accountability, and who takes a straightforward, common sense collaborative approach, putting the client in control of a hassle-free process incorporating breakthrough technology and unparalleled flexibility… with openness and transparency.

The IFG Philosophy

Common sense: Beating an index is not only unimportant, it's irrelevant. Indexes contain market risk and don't have to pay taxes or fund retirement. So, it should be no surprise that IFG's success is not measured by performance statistics, but rather by our client's success in achieving their goals.

Everything begins and ends with the needs of the client. The IFG approach is process driven. Solutions can be developed only after appropriate data (both quantitative and qualitative) has been gathered and evaluated.

Goal Setting

Clients must set their own goals. It is IFG's responsibility to provide education regarding process and to provide assistance in helping to define, quantify, and prioritize their goals. It's important to realize there might be hidden goals, i.e. risk management issues, which might take priority over investment issues.

Cash flow

Clients need total, after tax, after inflation, and after expense, *real* return – not dividends and interest. While an income portfolio may sound enticing, the concept can be better characterized as archaic, placing inappropriate restrictions on portfolio design. Matching dividends and interest with cash flow, in the long run, is more likely to result in failure to meet inflation-adjusted cash flow needs.

Capital Needs Analysis Assumptions

While many tout conservative assumptions as responsible; it's more likely a dangerous myth. A conservative assumption, ignoring Social Security income for example, will result in a need for a higher-return, higher volatility portfolio that may be beyond the risk or loss tolerance of the client. Capital needs analysis return requirements should be based on real rate of return estimates. In addition, the planning time horizon should be based on the client's unique family health history, not standard mortality tables. It should be noted that plans will not be prepared based on a client's unrealistic expectations; if necessary, IFG will refuse this type of engagement.

Risk Tolerance

IFG's success can be measured by a client's ability to sleep at night during periods of market turbulence. Past success is this area has been based on a combination of factors: Client education regarding risk and volatility, well-developed and stress-tested portfolio construction, and a conservative, prudent approach to wealth management and preservation practices. It's important that, before proceeding with portfolio development, we share with the client the same concept of risk.

Risk and Return Measures

IFG utilizes appropriate mathematical measures of risk and return. The primary measure of risk is standard deviation, which measures absolute, not relative, variation of returns around the investment's, not an index's, average. Total return is the basic criterion for return measurement; this includes real, time-weighted, and dollar-weighted, returns.

Efficient Markets

IFG rejects the use of technical analysis and market timing. It is not a part of this practice or management process.

Growth versus Value

Value investors like Warren Buffett, Peter Lynch, and Benjamin Graham, in addition to the research from Fama-French, have helped to shape IFG's philosophy of weighting value more heavily than growth in portfolio construction.

Active versus Passive

This isn't an "either-or" choice. IFG uses both. Passive management offers lower transaction costs and minimal asset-class drift, helping to preserve allocation integrity. A passive approach is often more tax-efficient and there is significant academic research suggesting long-term superior investment performance. Active management can provide the opportunity for superior returns and possible controlled volatility, although often at a somewhat higher cost, which brings us to asset allocation.

Asset Allocation

For individual investors, and indeed for many institutions, portfolio policy has been shown to be the primary determinant of long-term portfolio performance. IFG believes in maintaining a strategic allocation and only infrequently revises that allocation, usually as a result of changes in the client's situation, rather than the markets. While rebalancing to the strategic allocation is part of our process, the influence of taxes and transaction costs would indicate that contingent rebalancing with fairly wide drift parameters is often the more appropriate solution. IFG often recommends a "core-satellite" approach to allocating assets, utilizing active management only for those asset classes and investment styles where value can be added in the form of either increased return or controlled volatility.

Implementation

In all cases, IFG utilizes external, independent institutional money managers and/or draws from the universe of public and institutional no-load funds, as well as exchange-traded funds (ETFs). Managers, when utilized, are selected and evaluated based on their philosophies, processes, and people. See "Active vs. Passive" above.

Reporting

IFG utilizes independent third-party firms to report on manager performance. These firms do not receive compensation from the managers they cover. IFG clients need to know their reporting is objective, complete, relevant, and available 24/7.

Tax Constraints

Like the need for liquidity, taxes must also be considered. While "minimizing taxes" is a often repeated nice-sounding mantra, the real goal is to maximize after-tax returns within the constraints of the client's established risk guidelines. Within those guidelines, investment issues should take priority over taxes. For example, variable annuities should be considered only when asset protection is an issue (in states where the law protects annuity assets) or when the tax savings can demonstrably overcome the annuity's associated costs and provide a premium adequate to offset the annuity's relative inflexibility. For the most part, their costs often outweigh their benefits.

Ongoing Management

Regular portfolio reviews are encouraged, as well as plan updates. This includes a progress check on goal achievement, as well as any needed revisions to plan assumptions, goals, and circumstances. Client education is an ongoing part of this process.

The Practice of Wealth Management

Each client acts as the Chief Executive Officer of his/her own "foundation"; a sort of "capital pension fund". Their capital fund functions similar to others: Future capital requirements must be achieved in order to meet future the client's personal pension liability for an undetermined period of time. In addition, some clients may wish to fund additional objectives above and beyond their own future income requirements, i.e., education for heirs, charitable bequests, etc.

IFG acts as the institutional advisor – a "personal CFO" to the individual investor – a personal 'chief financial officer'. The client provides the big picture, with objectives and guidelines. Once I have my "marching orders", my job is to execute the plan while keeping the client informed through periodic reviews

Clients typically utilize IFG's advisory services for accounts valued between $500,000 and $5 million, though there are clients on each side of that range. As an *Accredited Investment Fiduciary*® (AIF®)[1], I am qualified, and do, serve in a fiduciary capacity for my clients.

The Four Pillars of Investment Success

The IFG investment philosophy is grounded in four basic pillars:

i. It's not about picking hot investments or "beating" the markets; it's about achieving goals. Indeed 'following the market' is proof something's wrong.
ii. Managing the downside is more important than chasing returns
iii. No one can control markets or interest rates; but we can control costs and taxes
iv. Monitor everything and revise as necessary; keep your plan current.

While the investment process isn't really rocket science, there is a long history of academic research supporting best practices and a prudent process. And, strangely enough, much of it can be explained in common sense terms: A successful investor doesn't have to be brilliant; s/he needs only to be smart. And, the definition of "smart" is simply to avoid doing things that are stupid.

Jim

[1] *This was earned through the Center for Fiduciary Studies in association with The Joseph M. Katz Graduate School of Business, University of Pittsburg*

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