

Lamb Financial Planning's Investment Philosophy

To develop recommendations for investments, Lamb Financial Planning (LFP) follows a **low-cost, goal-focused, diversified-asset strategy** that is supported by objective studies and industry research.

Low-Cost Investment Instruments

All investment options have costs that impact their value. The actively-managed funds and investment processes that are widely promoted by the industry typically carry heavy fees and/or commissions. Evaluated for net return, these approaches do not show historical outperformance over long periods of time.

LFP believes that reducing your investment costs through Exchange-Traded Funds or index funds is essential for your portfolio's long-term performance.

Diversification with Low-Correlated Assets

LFP aims to diversify portfolios using "low-correlated" assets – that is, investments that do not move synchronously during typical market fluctuations.

For example, if the stock market is moving down, a portfolio would ideally include assets such as Treasury Inflation Protected Securities (TIPS) or a real estate index fund, which are unlikely to lose value under the same conditions. This helps the portfolio sustain its value during volatile periods.

In the short term, there may be events (such as in 2008) when a "perfect storm" of a bubble or economic downturn affects multiple markets simultaneously. During these events a low-correlation strategy may not provide obvious benefits. However, in the longer term, low-correlated assets will stabilize a portfolio's return over time as well as reduce the investor's overall risk (i.e., standard deviation).

Risk Tolerance

Your personal risk tolerance is determined by your ability to withstand short-term volatility without selling your investments (i.e., the "ability to sleep at night" test). Studies show that following a "fear and greed" cycle of selling low and buying high (such as selling as markets crash and buying back after markets have completely recovered) reduces overall return over time.

Our strategy in creating your ideal portfolio is to assume the minimum level of risk necessary to achieve the required level of return – that is, the return needed for meeting your goals.

Risk Management and Time Horizons

Your investment goals and your time horizon should guide the level of risk in your portfolio. A longer-term horizon (10+ years) allows you to take greater risks, since you have the flexibility to "ride out" a market cycle. A short-term horizon (5-10 years) indicates a reduced level of risk, as your need for the funds could require you to sell riskier investments at an inopportune time.

As your time horizon draws closer, it's important to reassess your portfolio and re-allocate funds to more conservative investments.

LFP believes that any goals that must be met in the very short term

(i.e., 1 to 5 years) should be targeted with conservative, low-risk, principal-protected investments such as CDs and money market accounts.

Risk Capacity

Risk capacity defines the level of risk you need to assume in order to achieve your goals.

For example, if you have a large investment portfolio and a low need for income from the portfolio, you would need to take on only a minimal level of risk. On the other hand, if your assets are relatively limited, you want to retire in five years, and you'll require significant retirement income from your portfolio, you would need to assume a high level of risk in order to reach that goal.

LFP aims to balance risk capacity against risk tolerance, to ensure that your investment strategy is sound and that you are comfortable sticking with it through the inevitable ups and downs of the market.

Challenges in the Current Environment

As most investors are aware, investment markets across all sectors have recently experienced unusually high uncertainty and risk. Bonds are offering lower yields due to low interest rates and reduced prices as interest rates rise; stocks face a potential secular bear market (i.e., a long downward trend in price and valuations); real estate is dealing with a possible commercial real estate market bubble; and government bonds may develop a Treasury bond bubble.

During this period, LFP does not recommend avoiding all investments in these sectors, since long-term strategies can absorb periods of uncertainty. Instead, we advise investors to keep realistic expectations for returns in the current environment, and to stay diversified across all markets to minimize risks in any one area.

Remember that overly-conservative strategies can expose investors to another longer-term risk: losing "purchasing power" due to inflation. Investing in asset classes other than cash provides greater potential for return and outpacing inflation over time.

If you have any questions about the Lamb Financial Planning investment philosophy, please ask Lara Lamb at (818) 942-7100 or Lara@LambFinancialPlanning.com.