



WORTH ALLAYE-CHAN INVESTMENT COUNSEL

INVESTING YOUR MONEY

Part III: Do you follow a disciplined, repeatable investment process?

Whether your investible assets are \$1million or \$50million, you need to have a disciplined, repeatable investment process.

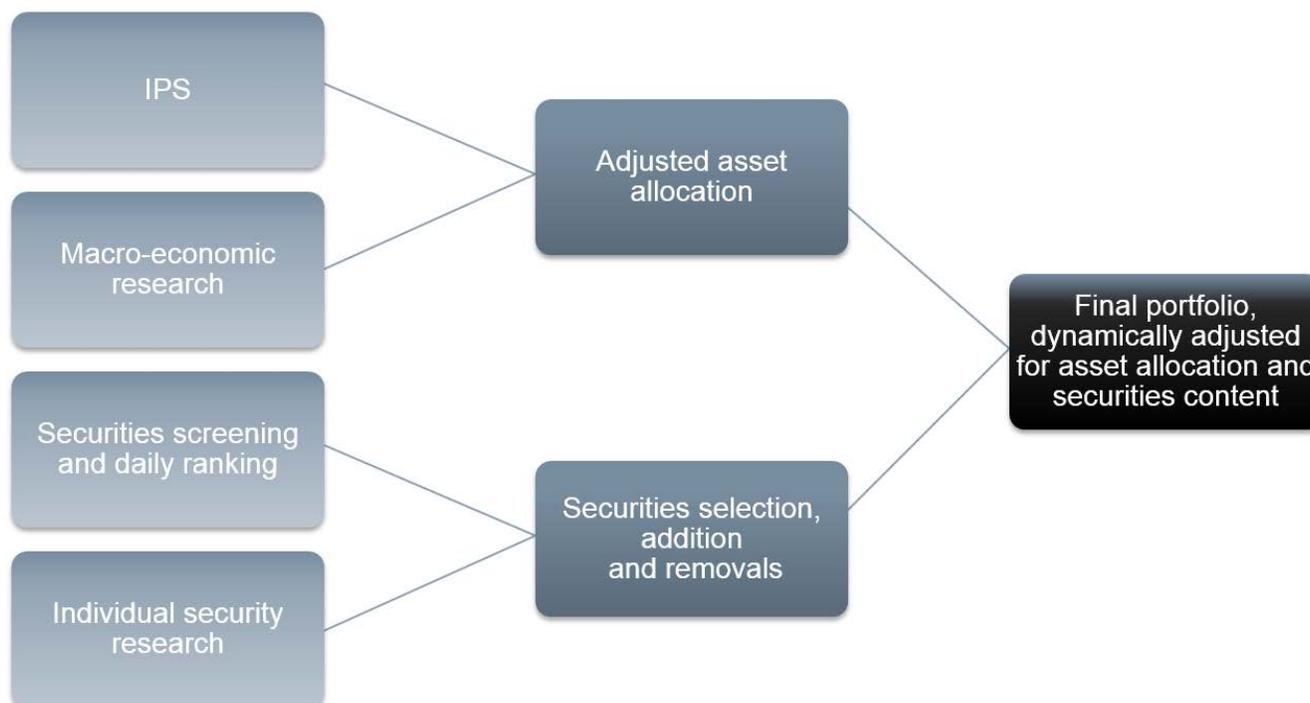
If you want to be a successful investor over the longer term, or if you are responsible for investing someone else's money, you need to manage risk and yet be successful in generating returns that meet your objective. And you need to be able to repeat it! Most investment managers have a methodology and use an Investment Policy Statement (IPS) to define just how to invest each client's money and clearly delineate the boundaries of factors such as equity exposure, foreign content and especially risk.

Worth Allaye-Chan Investment Counsel uses both a constant macro-economic review process and a micro securities selection methodology to ensure disciplined, repeatable and highly competitive portfolios for individuals, families, and institutional clients. Once a plan is in place and the objectives understood, we use a macro review to determine where to invest, which currency and what sectors. The Macro component is the first and most important step which we have discussed in Parts I and II.

This Macro process gives us a top down look at economies with both a short and a long term outlook and impacts asset allocation – the positioning of the portfolio's exposure to cash, bonds and stocks relative to the target allocation in the IPS. It also impacts sector allocation – positioning of the portfolio's exposure within stocks of various sectors. It determines the level of fixed income duration – positioning of the portfolio's exposure to long- term or short term bonds, and to credit quality. The currency decision is very important and the macro review helps us to position the portfolio's exposure to non-Canadian Dollar denominated investments.

The security selection process is a separate process unto itself. There are about 17,000 stocks traded on exchanges in North America. Of these, probably about 5,000 are "investible" (are likely to be there tomorrow and can be readily bought and sold in a liquid environment). No one can research all the possible candidates. Most investors (Pros included!) limit their universe to names they know, research they favour and input from a trusted source. Our approach is to use third party data miners to measure factors such as earnings growth rates, surprises in earnings compared to what was expected by analysts, changes in analysts' views, valuation and more. This way we shrink the universe down to about 50 – 100 of the best candidates for each model portfolio type (e.g., income balanced, equity balanced, Canadian or foreign equity, etc.). Then they are ranked. The rankings are adjusted daily (where required) and rules are in place for the addition and removal of securities. In this way, we mine the entire universe (actually about 5,500 stocks) but only consider candidates ranked in the top say, 50, for each model. A review of the research on each individual security is the final step in deciding to add to the portfolio. We do this with different factors and weightings for 9 different modelled portfolios, targeting for example: Fixed Income for capital preservation and income; Balanced with a fixed income (bond) bias and separately with a stock bias; Canadian equities, U.S. and global equities for growth investors. The choice of one or more of these "mandates" is determined by the client through their IPS. Tactical changes are made to respond to changing market and economic trends.

Worth Allaye-Chan Investment Counsel investment process



The process allows us to be fully invested when markets and economics are supportive and to raise cash or fixed income allocations when needed. Sector rotation as economics dictates is prompted by both the Macro review and the securities selection process. All this occurs within the boundaries stipulated in the IPS. The process is repeatable. In fact we measure performance of client accounts invested in an identical manner and report the performance of composites of these accounts.

It's certainly true that past performance may not be repeated in the future but using hard modelled portfolios in this way gives us a reasonable expectation that the portfolio will continue to perform as it has, relative to the associated markets.

Next we will give you a look at some of the results that you can generate with hard modelled, disciplined investing. Stay tuned.

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