



WASATCH

CAPITAL MANAGEMENT OF

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LOANS



**“Any other collateral besides your heart
of gold and million-dollar smile?”**

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The Investment Process. -Article by Mark Lazar

We don't have to be smarter than the rest. We have to be more disciplined than the rest. **Warren Buffett**

The investment process can be both complex and confusing, if not downright mysterious. However, those that follow a clearly defined process, over time, enjoy superior returns, reduced, risk, and sleep better at night than those who don't. What does the process look like? It entails five steps:

- 1. Determine investment objectives and risk profile**
 - a. How much market risk (volatility) can one bear?
 - b. Balancing market risk with the risk of running out of money.
 - c. Understanding the long-term effects of inflation.

- d. Setting realistic return/income expectations.
- 2. Establish asset allocation policy (investment policy statement)**
 - a. Diversification– percentage is allocated to stocks, bonds, sectors, alternative assets, cash, etc.
 - b. Due diligence, manager research, adherence to investment style, socially responsible, etc.
 - c. Security selection; individual securities, mutual funds, ETFs, separate accounts, etc.
 - d. Tax nature of accounts (i.e. Roth IRA, tax deferral versus future step-up in basis, etc.), underlying securities (i.e. qualified dividends, low turnover, LT versus ST gains, etc.).
 - e. Minimizing fees and unnecessary costs.
- 3. Implementation**–Portfolio is brought into alignment with the investment policy statement.
- 4. Monitor and ongoing communication**
 - a. Investments are reviewed quarterly.
 - b. Client-driven process. Client’s needs, goals, risk tolerance, etc., dictate investment strategy.
- 5. Review and rebalance**
 - a) Evaluate portfolio securities to ensure superior risk/reward characteristics.
 - b) Trim winners.
 - c) Harvest unrealized losses.
 - d) Reposition portfolio to align with client’s current goals and wishes.
 - e) Portfolio optimization/tactical repositioning of asset classes.

Portfolios typically include some combination of equities, [sector investments](#) (i.e., [REITs](#)), fixed income and cash. It’s important to understand the different [investment classes](#) or types and their unique characteristics. The chart below illustrates the risk/return characteristics of portfolios consisting differing allocations of stocks and bonds.

STOCK-BOND RATIO	LONG-TERM ANNUALIZED RETURN	MAXIMUM HISTORICAL LOSS
100-0	10.1%	-43.1%
80-20	9.5%	-34.9%
70-30	9.1%	-30.7%
60-40	8.7%	-26.6%
50-50	8.3%	-22.5%
40-60	7.8%	-18.4%
30-70	7.2%	-14.2%
20-80	6.7%	-10.1%
0-100	5.4%	-8.1%

Source: [Vanguard](#)

Why do we diversify portfolios? Because some asset classes perform well when others are performing poorly. A properly diversified portfolio reduces volatility/risk while still providing commensurate long-term, inflation-adjusted returns. However, if all positions in a portfolio are all going up at the same time, while it may make you feel good in the short term, it’s generally a pretty good indicator the portfolio is not diversified, and those very same assets can all fall in unison as well.

History may not repeat itself but it does rhyme. While no one can predict what markets will do tomorrow, we can expect that over a ten-year period, or two [business cycles](#), the wise investor will be well-compensated for their patience and ability to tune out the “noise.” By maintaining a long-term view and knowing that even the best portfolios will experience negative returns for limited periods, patient investors will, over time, be richly rewarded. By keeping enough cash reserve (typically 3-6 months) and understanding that market securities don’t increase in a straight line, a disciplined process combined with realistic expectations and fortitude, are the ingredients to make for a great investment experience.

Spring is just around the corner!



The birds singing and flowers blooming are a cue – it's time for heavy duty cleaning and organizing. That includes cleaning out your financial to-do list and discussing any outstanding items with your advisor. It's also a good idea to check your credit report and consider consolidating your retirement accounts.



SPRING 2019 | MARKET CLOSURES

Friday, April 19: Good Friday

Monday, May 27: Memorial Day

MARK YOUR CALENDAR

- **Monday, April 1:** Final day to take 2019 required minimum distributions for those who turned 70½ in 2018.
- **Monday, April 15:** Tax day – the deadline to file your taxes or request a tax filing extension. Mark this date!
- **Monday, April 15:** Last day to contribute to traditional and Roth IRAs or Coverdell education savings accounts for 2018.

PLANNING TO-DO'S

- **Don't delay distributions:** If over 70½, take required minimum distributions (RMDs) from your IRAs and qualified plans. You must begin RMDs by April 1 the year after you turn 70½. After the first distribution, IRA holders must take distributions by December 31 each year. That means if you reached 70½ during 2018, and you delayed your 2018 initial RMD until April 1, 2019, your 2019 RMD would still be due before December 31, 2019. For more information, go to [irs.gov/rmd](https://www.irs.gov/rmd).

- **Home in on a housing plan:** It's homebuying season. If you're considering buying or refinancing a home, check your finances and pay close attention to interest rates.
- **Weigh an extension:** If applicable – particularly if you hold securities subject to income reallocation – ask your tax advisor if filing an extension with the IRS would be beneficial.
- **Unify and simplify:** If you have retirement accounts with former employers, talk to your advisor about your options.
- **Pull your credit report:** Obtain a free copy of your credit report and conduct a midyear review.
- **Dream of graduation:** Talk to your advisor about education savings plan alternatives for your child or grandchild.
- **Have a teachable moment:** Start a conversation about finances and budgeting with a student or recent graduate in your life. Consider introducing him or her to your financial advisor to learn the basics of saving and investing.

Wasatch Team Updates



Mark

Mark, Savina, and a few friends out for cocktails at a Scottsdale Bar.



Morgan

Sundance Film Festival 2019 has taken over Park City, Utah! Morgan and Whitaker in front of the Egyptian Theater Marquee, which just happens to be the most photographed sign in the world for the 10 days of Sundance!



John

John representing Wasatch Capital Management of Raymond James at an investment conference in St. Petersburg, FL (Raymond James Headquarters!)



Elisha

Elisha and her husband Patrick out celebrating friends at a beautiful winter wedding.



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