RIA
Advice

Last week, I was discussing the rather?*Pavlovian?*•response to Central Bank interventions which has led investors into a false sense of security with respect to the risk being undertaken within portfolios. This got me to thinking about?*risk?*•and reminded me of something Howard Marks once wrote:

> *?If I ask you what?s the risk in investing, you would answer the risk of losing money. But there actually are **two risks** in investing:**One is to lose money, and the other is to miss an opportunity. You can eliminate either one, but you can?t eliminate both at the same time.**•So the question is how you?re going to position yourself versus these two risks: straight down the middle, more aggressive or more defensive. I think of it like a comedy movie where a guy is considering some activity. On his right shoulder is sitting an angel in a white robe. He says: ?No, don?t do it! It?s not prudent, it?s not a good idea, it?s not proper and you?ll get in trouble?. On the other shoulder is the devil in a red robe with his pitchfork. He whispers: ?Do it, you?ll get rich?.•**In the end, the***

__devil usually wins.__ Caution, maturity and doing the right thing are old-fashioned ideas.• __And when they do battle against the desire to get rich, other than in panic times the desire to get rich usually wins. That?s why bubbles are created•__ and frauds like Bernie Madoff get money. __How do you avoid getting trapped by the devil?__ I?ve been in this business for over forty-five years now, so I?ve had a lot of experience.• In addition, I am not a very emotional person.•__In fact, almost all the great investors I know are unemotional.__ __If you?re emotional then you?ll buy at the top when everybody is euphoric and prices are high. Also, you?ll sell at the bottom when everybody is depressed and prices are low.__ __You?ll be like everybody else and you will always do the wrong thing at the extremes.__ Therefore,•__unemotionalism is one of the most important criteria for being a successful investor.__•And•__if you can?t be unemotional you should not invest your own money, period.__•Most great investors practice something called contrarianism. It consists of doing the right thing at the extremes which is the contrary of what everybody else is doing. __So unemtionalism is one of the basic requirements for contrarianism.?__

It is not surprising with markets hitting•*?all-time highs,?*•and the mainstream media trumpeting the news, that individuals are being swept up in the moment. After all, it's a *"can't lose proposition."* Right? **This is why being unemotional when it comes to your money is a very hard thing to do.** It is times, such as now, where logic states that we must participate in the current opportunity. However, emotions of•*?greed?*•and•*?fear?*•are kicking in either causing individual?s to take on too much exposure, or worrying that risk is too high and a crash could come at any time. Emotional based arguments are inherently wrong and lead individuals into making decisions that ultimately have a negative impact on their financial health. As Howard Marks? stated above, it is in times like these that individuals must remain unemotional and adhere to a strict investment discipline.

RIA Portfolio Management Rules

It is from Marks? view on risk management•that I thought I would share with you the portfolio rules that drive own own•investment discipline at Real Investment Advice.•**While I am often tagged as• *?bearish?*•due to my analysis of economic and fundamental data for•*?what it is?*•rather than• *?what I hope it to be,?*•I am actually neither bullish or bearish.**•I follow a very simple set of rules which are the core of my portfolio management philosophy which focus on capital preservation and long-term•*?risk-adjusted?*•returns. The fundamental, economic and price analysis forms the backdrop of overall risk exposure and asset allocation. However, the following rules are the•*?control boundaries?*•for all specific actions.

1. **Cut losers short and let winner?s run.**•*(Be a scale-up buyer into strength.)*
2. **Set goals and be actionable.**•*(Without specific goals, trades become arbitrary and increase overall portfolio risk.)*
3. **Emotionally driven decisions void the investment process.**•*(Buy high/sell low)*
4. **Follow the trend.**•*(80% of portfolio performance is determined by the long-term, monthly, trend. While a ?rising tide lifts all boats,? the opposite is also true.)*
5. **Never let a•*?trading opportunity?*•turn into a long-term investment.**•*(Refer to rule #1. All initial purchases are "trades," until your investment thesis is proved correct.)*
6. **An investment discipline does not work if it is not followed.**
7. ***?Losing money?*•is part of the investment process.**•*(If you are not prepared to take losses when they occur, you should not be investing.)*
8. **The odds of success improve greatly when the fundamental analysis is confirmed by the technical price action.**•*(This applies to both bull and bear markets)*

9. **Never, under any circumstances, add to a losing position.** *(As Paul Tudor Jones once quipped: ?Only losers add to losers.?)*
10. **Market are either *?bullish?* or *?bearish.?* During a *?bull market?* be only long or neutral. During a *?bear market?* be only neutral or short.** *(Bull and Bear markets are determined by their long-term trend as shown in the chart below.)*
11. **When markets are trading at, or near, extremes do the opposite of the *?herd.?***
12. **Do more of what works and less of what doesn?t.** *(Traditional rebalancing takes money from winners and adds it to losers. Rebalance by reducing losers and adding to winners.)*
13. ***?Buy?* and *?Sell?* signals are only useful if they are implemented.** *(Managing a portfolio without a ?buy/sell? discipline is designed to fail.)*
14. **Strive to be a .700 *?at bat?* player.** *(No strategy works 100% of the time. However, being consistent, controlling errors, and capitalizing on opportunity is what wins games.)*
15. **Manage risk and volatility.** *(Controlling the variables that lead to investment mistakes is what generates returns as a byproduct.)*

Currently, the long-term bullish trend that began in 2009 remains intact. The correction that began in early 2016 was temporarily cut short by massive, and continuing, interventions of global Central Banks. There is a limit, of course, to the efficacy of those interventions. A violation of the

long-term bullish trend, and a failure to recover, will signal the beginning of the next "bear market" cycle. Such will then change portfolio allocations to be either•*?neutral or short.?* •**BUT, and most i mportantly, until that violation occurs, portfolios should be either long or neutral ONLY. •**
The current market advance both looks, and feels, like the last leg of a market•*?melt up?*•as we previously witnessed at the end of 1999. •How long it can last is anyone?s guess•**However, importantly, it should be remembered that all good things do come to an end. Sometimes, those endings can be very disastrous to long-term investing objectives.** This is why focusing on•*?risk controls?*•in the short-term, and avoiding subsequent major draw-downs, the long-term returns tend to take care of themselves.
Everyone approaches money management differently. This is just my approach and I am simply sharing my process. I hope you find something useful in it.