



## July 20, 2007 – Active vs. Passive Money Management

As many of you know, I left my former firm and opened a Registered Investment Advisory Firm, Fulkerson Capital Management. It has been a busy few months for Fulkerson Capital Management but we have crested the mountain and all is clear.

Working with the prior firm the past three years has truly been a great experience. They are hard working, honest, dedicated people who do the absolute best they can for their clients.

There are two schools of thought on investment management – active vs. passive. The difference between passive and active investment management is large. This month we will discuss these differences in more detail. At Fulkerson Capital Management, we employ active investment strategies.

**Passive management** or traditional asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time. The goal of asset allocation is to provide the maximum level of return for a specific level of risk. If you are not going to work with an active investment manager - which I highly recommend - then it is an absolute must to do asset allocation.

**Active management** is a dynamic asset allocation strategy that is designed to manage risk without diminishing long-term returns. Portfolio moves are made in response to changing market conditions and asset allocation is adjusted on a continuous basis in response to changing market conditions and perceived profit opportunities.

I choose active management because it is my assessment the world equity markets are designed to take our money. I don't trust the market. I do try to take advantage of its good nature from time-to-time but I always remember someone on the other side of the computer screen is out to get us. I stay prepared and am always ready to seek the safety of cash or hedged positions if I perceive danger on the horizon.

The passive buy-and-hold or some call "buy-and-hope" approach became popular in the 80's and 90's when the stock market went on the single best bull market run in world history. Passive buy-and-hold worked well for two decades not because it is a timeless strategy but because it was the right strategy at the right time. It also became popular because it is easy to execute for huge investment companies that manage billions of dollars. If the CEO of a large Wall Street investment firm received a message from God... I mean a real one... that the market was going to crash, he could not get everybody out. If he did, his selling would make the market crash! So they are stuck.

What if we employed the buy-and-hold strategy from 1965-1982 when the U.S. stock market returned 0% for 17 years? Buy-and-hold was devastating to investors during the 60's and 70's; it simply does not work in all environments. Or 1929-1949 when the market returned 1.2% annually? It would be difficult to retire on those types of returns in our IRA/401(k)/403(b)'s.

Good investing is about managing risk as much as possible and that means being ready to act at a moments notice. The Oracle of Omaha, Warren Buffet has many times repeated his top two investing rules: "Rule number one, never lose money. Rule number two, never forget rule number one."

I don't trust the market will steadily go higher. Save your trust for your friends and family. The only thing we can trust about the market is that it will always be changing