



# ENDRESS

CAPITAL MANAGEMENT, LLC

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## AN OVERVIEW OF INVESTMENT STRATEGY

### What is an Investment Strategy?

An investment strategy is an essential part of a comprehensive financial plan. An investment strategy exists to answer the questions of who, what, when, where, why and how for an investor. These questions are broken down below:

Who: Who/what type of organization will invest the money? Who will be using the money?

What: What investments will be held? What investments will not be held?

When: When will we invest? When should we take distributions? Will we have a set schedule for this?

Where: Where will the money held? Which custodian will we use and what kind of services do they provide?

Why: Why, ultimately, are we investing this money? What are our long-term and short-term goals for this money?

How: How will we manage investments? In other words, what larger procedures will we set in place to guide us?

### What is an Asset Allocation?

Asset allocation is probably the most discussed part of investment strategy. Asset allocation answers the “question of what.” That is, an investor’s asset allocation is the breakdown of how much money will go into each different investment. By allocating money into different investments, investors hope to realize their financial goals without taking on unnecessary risk.

### What is Risk?

When most people think of risk, they think of the risk of their investments declining in value. This kind of risk is known as market risk. Generally, in order to obtain a higher return on investment, an investor will have to assume more market risk.

Though many investors worry almost exclusively about market risk, there are actually many kinds of risk investors need to be aware of. Having a proper, well thought-out asset allocation can help balance these risks and allow investors to reach their goals.

Investors might enlist help in this process, or they might go it alone. In either case, once an investor has decided on an appropriate asset allocation, they must decide if they would like their investments to be in actively or passively managed funds.

## The Difference between Active & Passive Management

Active and passive funds are two different styles of investment funds. An investment fund is a pool of money from different investors; on behalf of the investors, the fund buys investments. If the fund is actively managed, a team of professionals routinely select investments for the fund. In exchange for this service, investors in the fund pay a fee, known as the expense ratio. Investors usually refer to actively managed funds as mutual funds.

In passively managed funds, investors buy into a fund that is not managed. Instead, the fund periodically changes its investments based on previously set rules. As a result, passively managed funds usually have much lower expense ratios compared to actively managed funds. Investors usually refer to passively managed funds as index funds, ETFs or Exchange Traded Funds.

Many investors believe professional selection of investments is worth the extra cost. However, since actively managed funds generally have higher expense ratios than passively managed funds, their performance has to be better to earn fund investors an equal return. Historically, mutual funds have been unable to accomplish this. For this reason, we recommend the use of index funds for most clients.

In addition to holding actively managed funds, many investors engage in a strategy that usually hinders their investment returns. This strategy is called market timing.

## What is Market Timing?

Market timing is a strategy of buying or selling assets to try and benefit from future movements in the financial markets. You might have heard the old adage, "Buy low, sell high." You may also have heard of Tactical Asset Allocation. Both of these terms are different names for market timing.

Unfortunately, research has shown it is exceedingly difficult to predict market highs and market lows. Other studies show market timing is likely to reduce an investor's return. Therefore, Endress Capital Management does not recommend market timing.

## Summary

Because of these principals of investing, we strongly believe in the need for a disciplined approach. From the first step of formulating an investment strategy, emotional decision-making can jeopardize a financial plan. By understanding and implementing these concepts, investors can avoid many common mistakes and make sound decisions that will maximize the potential of their investments.