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Osborne Partners Capital Management
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"Where should I invest now?"

By Osborne Partners Capital Management

Where to invest is a common question, but one that often leads investors down the wrong path. Instead, the savvy investor asks, "How should I invest now?"

The answer lies in using similar strategies to those practiced by large foundations and endowments. Although these investors may use different tactics to achieve their investment goals, the strategies always revolve around diversification and reducing risk. This is what separates the most successful investors from the rest of the pack.

A broadly diversified portfolio does not mean simply owning different types of stocks in different sectors or countries, or sprinkling in a few bonds to reduce risk. What these astute investors do is further diversify into asset classes that most investment advisors do not even consider.

Regardless of where these seasoned investors think the market is headed, they typically devote a significant portion of their total portfolio to natural resources, real estate and alternative assets. Natural resources, which includes sectors such as energy and commodities, can be an excellent hedge against inflation and a weak U.S. dollar while also reducing portfolio risk. Real estate in the form of liquid real estate investment trusts (REITs) can provide income to a portfolio as well as help to hedge against inflation. Alternative assets can be used either to hedge a total portfolio or to provide further diversification into sub-asset classes such as private equity and distressed assets.

Successful investors use these asset classes along with equities and fixed income to build a portfolio that meets their needs. They determine their portfolio allocation by considering their time horizon, liquidity needs and willingness to assume risk. To reduce overall portfolio fees, many use individual securities instead of mutual funds. Most importantly, when building the portfolio, they focus on each asset class having a distinct purpose. Because each asset class moves somewhat independently during different market environments, this helps reduce risk and lower volatility while generating income and growth.

Over the long term, these asset classes are rebalanced when fundamentals and valuations reach extremes. Unlike many, the successful investor depends on logic as opposed to emotions to make these rebalancing decisions. Today, while keeping exposure to all asset classes, many astute investors are rebalancing portfolios in favor of equities, while slowly reducing fixed income. It should be no surprise that this action is the exact opposite of the herd consensus.

After this lost decade in world equity markets and a stealth bull market in bonds, many investors have panicked out of stocks and into bonds. This is the reverse of 1999–2000, when many panicked out of bonds and into stocks. Too many investors are always attempting to answer the "what" question, when "how" is the question to answer.

HOW DO YOU PERFORM IN DOWN MARKETS?

This question will send many wealth advisors into a discourse on long-term returns and taking the good with the bad. If you do the math, you will see it differently. Assuming a $1 million portfolio:

High Volatility Manager A

YEAR 1: Up 20%, portfolio value = $1,200,000

YEAR 2: Down 40%, portfolio value = $720,000

YEAR 3: Up 20%, portfolio value = $864,000

Low Volatility Manager B

YEAR 1: Up 10%, portfolio value = $1,100,000

YEAR 2: Down 20%, portfolio value = $880,000

YEAR 3: Up 10%, portfolio value = $968,000

In the above example, lower volatility provided you with $104,000 more after this three-year period, and you slept better at night. Which portfolio would you have picked?

Many investors are enticed by hot performance in easy markets, when the most important time to outperform is in tough, down markets.

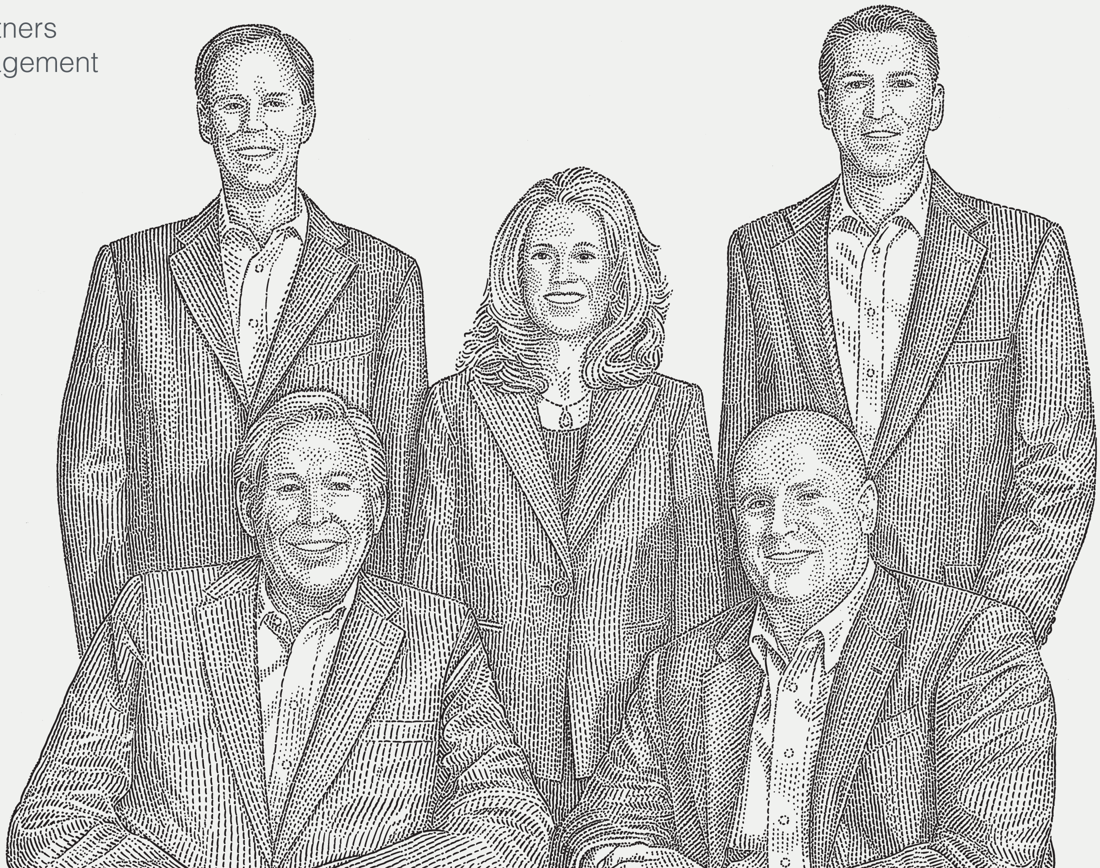
Information expressed herein is strictly the opinion of OPCM. Information provided is for discussion purposes only and should not be deemed investment advice.

"The most successful investors further diversify their portfolios into asset classes that most investment advisors do not even consider."

—Osborne Partners Capital Management

How to reach OPCM

We have offices in San Francisco and Silicon Valley. Please call Deglin F. Kenealy at 650.485.1835 *or* 800.397.5101 *for further information.*



Seated, left to right: Charles D. Osborne, Deglin F. Kenealy; *standing, left to right:* Robert C. Gillooly, Shannon S. Lemon *and* Justin W. McNichols

About Osborne Partners Capital Management

Since 1937, Osborne Partners Capital Management (OPCM) and its predecessor firms have managed diverse portfolios for prominent families and institutions. Unique in its approach, OPCM invests portfolios over five primary asset classes: equities, fixed income, natural resources, real estate and alternatives. Its goal is to improve performance while reducing portfolio volatility and risk. Portfolios are managed in-house by a team of seven—each of whom possesses either a master's degree and/or a CFA designation. OPCM customizes portfolios based on individual needs, risk-tolerance level and client goals. Each client receives an investment policy guideline detailing investment allocations. OPCM is proud to offer institutional management with a boutique approach to client service.

Assets Under Management
$1.1 billion (as of 3/31/12)

Minimum Asset Requirement
$1 million (for planning and investment services)

Minimum Fee for Initial Meeting
None required

Largest Client Net Worth
$50 million+

Financial Services Experience
113 years (combined)

Compensation Method
Asset-based fees

Professional Services Provided
Planning, investment advisory and money management services

Primary Custodian for Investor Assets
Charles Schwab, TD Ameritrade

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