

Discretionary Management Services, LLC

## **Insights Into Our GTAA Investment Process**

By Tom Woolwine, President, June 2013

This is the second paper in a series of three to provide insights into the DMS investment process. This edition reviews our investment philosophy and illustrates the second part of our three-step process to position client portfolios for existing and expected market conditions.

### **Investment Philosophy Overview**

DMS believes that different economies create different investment markets. Changing markets impact leadership of various assets and styles. Our philosophy of investing is best highlighted by the following tenets:

- Tactical, dynamic asset allocation strategies are effective at improving risk/return profiles
- Win by not losing; emphasize downside protection and capital preservation
- Emphasize active management over passive because markets are inefficient
- Employ multiple sources of alpha generation to beat the odds of being average
- Employ a “value” tilt in equity style diversification
- Use fewer managers to concentrate best ideas
- Implement a contrarian strategy willing to invest at point of greatest pain
- Be patient and plan to be early
- Emphasize consistency and discipline; invest without emotion

### **Investment Process Overview**

DMS employs a dynamic strategy using a three-step process:

1. Global Asset Allocation Policy
2. Portfolio Construction and Implementation
3. Ongoing Oversight and Risk Management

### **Step 2 – Portfolio Construction and Implementation**

This second component of the process calls on the portfolio management team to design and build the optimal portfolio based on their Global Asset Allocation Policy. Decision highlights include:

- Select active managers to manage core sub-allocations using DeMarche Manager Review Committee (MARC) approved managers universe
  - MARC modeled after a traditional securities research department
    - Committee members average nearly 30 years of investment experience
    - Due diligence is centralized within a committee structure
    - Top down and bottom up analysis
    - Qualitative and quantitative analysis
    - Extensive fundamental research including creating unique profiles
  - Research emphasis on Leading Indicators of performance
  - Factor model forecast expected good/bad performance by manager style
- Execute tactical shifts among strategies and styles within and between asset classes (i.e., large/small cap, growth/value, treasury/credit, long/short duration, etc.) based upon portfolio managers reaching consensus on opportunities in current environment
- Utilize ETFs/index funds for tactical moves to minimize frequency of disruptions to managers

If you are interested in learning more about DMS outsourcing and GTAA services, please contact me at (913) 981-1345.