

Discretionary Management Services, LLC

Insights Into Our GTAA Investment Process

By Tom Woolwine, President, March 2013

This is the first paper in a series of three to provide insights into the DMS investment process. This edition reviews our investment philosophy and illustrates the first 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 1 - Global Asset Allocation Policy

This first component of the process calls on the portfolio management team to put their knowledge of economics and markets to work. Decision highlights include:

- Establish goals and objectives and define benchmark targets/ranges for client portfolio
 - Ensure suitability of multiple goals: absolute, relative, peer, and risk-adjusted
 - Dynamic consideration of asset classes able to help strategically
 - Enhance guidelines to benefit from opportunities in sub-classes including style
- Evaluate economic conditions using DeMarche’s strategic forecast (next three to five years) developed by the Asset Allocation Committee. This incorporates our proprietary “supercycle” analysis, which identified differences in the interaction and performance between asset classes
 - GDP and earnings growth forecasts
 - Inflation, interest rates and Fed policy
 - Demographics, unemployment and debt
- Evaluate market conditions using proprietary and external measures of valuation, spreads, momentum and liquidity
 - DeMarche expected return factor model
 - Conditional probability framework
 - Stock market phase indicator

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