xypn invest

Investment **Philosophy**

Our Investment Philosophy

At XYIS, we support financial planners with sophisticated yet simple investment strategies. We start with the belief that **markets work in the long run** when it comes to securities pricing. And, that certain factors are likely to compensate investors for taking investment risk.

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We overlay that with a close eye on prevailing market conditions and opportunities, and tilt portfolios appropriately within tight guide-rails to **protect and achieve the expected returns** used in the financial planning process. Below are some of the key beliefs that underpin our strategies:

✱ ASSET ALLOCATION

We provide a diverse array of portfolios to cover the spectrum of risk tolerance and required rates of return for financial planners and their clients. We believe that equities (stocks) are the primary means for outpacing inflation over the long run, and fixed income (bonds) provide ballast to moderate portfolio volatility.

We will not deviate from the stated equity/fixed income ratio of each of our models aside from the float afforded by our rebalancing algorithm. For instance, we will never consciously trade the 90/10 model down to 80% equity. This allows you, the advisor, to retain the sole discretion over the asset allocation most appropriate for each portfolio.

We incorporate specific types of assets into the most conservative portfolios to protect clients' purchasing power against inflation while accommodating a low appetite for risk.

✱ DIVERSIFICATION

In today's global economy, we recognize that there are extremely profitable opportunities based in almost all countries of the world. We believe in diversifying as much as possible in all asset classes and categories with an eye toward risk and cost.

Our equity will have a neutral position of 50% US/50% Non-US.

- → Within each of those components, small and/or mid-cap stocks are expected to comprise an above-market weight under most conditions.
- → Similarly, "value" stocks are expected to comprise a greater-than-market weight under most conditions.
- → Emerging markets will likely always be represented in the portfolio with a combined weight of no more than 20% of equity.

Our fixed income will be comprised predominantly of short- and intermediate-term investment-grade securities.

- → Non-US bonds shall represent no more than 50% of the portfolio.
- → Non-investment-grade bonds may be considered, but limited to no more than 20% of the bond allocation.
- → Inflation-protected bonds will be included in certain model allocations to replace the real return potential lost with fixed income allocations

LOW COST

It is widely accepted that a surefire way to ensure you keep more of your portfolio returns is to keep costs low, all else equal. Many of the asset "exposures" we seek are available via diversified, passive investments such as index funds managed by reputable companies at extremely low cost. When possible, it is our preference to use such a vehicle, though we continue to seek the optimal method of exposure, including Exchange-Traded Funds (ETFs) and actively managed portfolios.

DISCIPLINE

We have incorporated decades of collective experience and countless hours of research to develop a portfolio that is logical and understandable, and one that investors feel confident sticking to for the long-term. Our portfolio positions will not change with great frequency or without diligent and thoughtful rationale, and certainly will not be a result of knee-jerk reactions or panic in the face of crisis. We believe that our ideal investors will feel the same. After all, it is the mark of a true advisor to allay irrational behavior and emotional responses that, if left unchecked, might otherwise undermine the success of the "best laid plans." The XYIS Investment Committee expects to make changes to the portfolio no more frequently than quarterly under normal circumstances.

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Equity Philosophy and Rationale

We believe in maintaining a globally-diversified portfolio, covering developed and emerging markets as cost-effectively as possible. We also believe in covering the size-and-style spectrum to avoid prolonged periods of underperformance due to the cycles that investment styles exhibit. We agree with Eugene Fama and Ken French's work, which observed that the stocks of smaller companies and those with attractive book-to-market values (aka "value" stocks) tend to outperform the broader market over time. As such, our stock portfolios will typically exhibit tilts toward securities with these characteristics.

Research has shown that the size and style premiums persist in international and emerging markets, which explain our allocations to international developed and emerging markets, typically approximating their respective weights in the global equity universe.

While there are additional risks and costs associated with such an investment, we believe there may be benefits to the portfolio such as further diversification and potential excess return.

For diversification beyond these traditional equity categories, we add a position to Global REITs (Real Estate Investment Trusts), providing commercial real estate exposure in a low-cost package. REITs provide a diversification advantage over traditional equities as they are typically more closely correlated with their respective home economies. Their unique structure also results in return patterns that differ from other stocks and may exhibit similar or better expected returns over the long run.

Bond Philosophy

As mentioned above, bonds are the primary and most widely-accepted means by which to moderate portfolio volatility attributable to stocks. A diversified portfolio of government, corporate—and in some cases municipal bonds—should provide a reasonable rate of return, and can provide a haven in times of stock market stress.

We further diversify the bond side with an allocation to international bonds. We prefer using international and global bond funds with tight risk controls and ones which employ currency hedging. While volatility is more acceptable in the higher-risk and higher-expected-return stock portfolio, we prefer to mitigate this volatility in bonds to improve the risk/return profile.

Tax Efficiency

Tax-efficiency is most important on the bond side because that is where the most income is generated. In general, we follow the same broad philosophy as described above in our Bond Philosophy, but in this case using municipal bond funds. Cost is critical when choosing municipal bond portfolios, so we seek low cost funds with management teams that can take advantage of their cost advantage. Specifically, we seek out those that keep the fund diversified in very high quality and rigorously-researched issues, while also keeping quality high and defaults negligible.